Madex International (Holdings) Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00231)

Annual Report 2013

This report, in both English and Chinese versions, is available on the Company's website at http://www.madex.com.hk (the "Company Website").

Shareholders who have chosen or have been deemed consented to receive the corporate communications of the Company (the "Corporate Communications") via the Company Website and who for any reason have difficulty in receiving or gaining access to this report posted on the Company Website will promptly upon request be sent this report in printed form free of charge.

Shareholders may at any time change their choice of the means of receipt (either in printed form or via the Company Website) and/or language(s) (either English only or Chinese only or both languages) of Corporate Communications.

Shareholders may send their request to receive this report in printed form, and/or to change their choice of the means of receipt and/or language(s) of Corporate Communications by notice in writing to the Company's Hong Kong Share Registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong or by sending an email to the Hong Kong Share Registrar of the Company at is-ecom@hk.tricorglobal.com.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Liang Wenguan *(Chairman)*
Mr. Zhang Guodong
Ms. Liang Huixin

Independent Non-executive Directors

Dr. Dong Ansheng
Mr. Hung Hing Man

AUDIT COMMITTEE

Mr. Hung Hing Man *(Committee Chairman)*
Dr. Dong Ansheng

REMUNERATION COMMITTEE

Dr. Dong Ansheng
Mr. Hung Hing Man
Mr. Liang Wenguan

NOMINATION COMMITTEE

Dr. Dong Ansheng *(Committee Chairman)*
Mr. Hung Hing Man
Mr. Liang Wenguan

AUTHORISED REPRESENTATIVES

Mr. Zhang Guodong
Mr. Chan Kwan Pak

COMPANY SECRETARY

Mr. Chan Kwan Pak

AUDITORS

Pan-China (HK) CPA Limited
11/F, Hong Kong Trade Centre
161-167 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co. Ltd. (Hong Kong) Branch
Bank of East Asia, Limited

PRINCIPAL REGISTRARS AND TRANSFER OFFICES

MUFG Fund Services Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

26 Burnaby Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

WEBSITE

www.madex.com.hk

STOCK CODE

00231

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Directors") of Madex International (Holdings) Limited (the "Company") and its subsidiaries (together the "Group"), I am pleased to present to the shareholders of the Company the annual report of the Group for the year ended 31 December 2013.

RESULTS

For the year ended 31 December 2013, the Group recorded an audited consolidated turnover of approximately HK$31,881,000, representing an increase of approximately 19% as compared to HK$26,702,000 for the year ended 31 December 2012; and a net loss of approximately HK$304,086,000, as against the net profit of approximately HK$12,410,000 for the year ended 31 December 2012. The loss was mainly attributable to the effect on fair value change on investment properties.

BUSINESS REVIEW

In 2013, the economic growth of mainland China showed signs of slowing down, partly due to the economic reform undergoing by the China government in a bid to trade off short term growth for long term sustainable development.

As before, the Group's mall in Harbin was the principal income earner of the Group in the year. The mall brought us a rental income of approximately HK$19,531,000 during the year. As a move of portfolio adjustment, the Group signed a sale and purchase agreement in September 2013 for the disposal of Harbin Mall and the disposal was completed in February 2014. The management regarded it a good timing to realise the appreciation of the mall.

Shenghui Plaza, the Group's flagship arcade which is strategically located in Chongqing, the only municipality directly under the central government in western China, has been opened for business since late 2013. The delay in decoration works has resulted in the extension of rent free period. Hence, minimal rental income from the mall was booked during the year. The Group received approximately HK$9,404,000 and HK$3,371,000 being royalty fee income and share of profit respectively from the Xiangquan Hotel project and another joint venture project in 2013.

PROSPECTS AND OUTLOOK

Looking forward in 2014, the uncertainty over the global economy will remain, following the trend from 2013. The halt of constant appreciation of Renmibi and the enhanced two-way fluctuation of Renmibi exchange rate will cast more uncertainty in the Chinese economy; it is generally foreseen that the GDP of China will drop further as a result. However, the Group sees this as a good opportunity for an economic reform of China to slightly shift from export-driven to domestic consumption, which is advantageous to our lifestyle mall business.

Following the completion of the disposal of our Harbin Mall in late February 2014, Shenghui Plaza had become the main profit generator of the Group. It is expected that with the opening of 2 metro line exits directly into and alongside Shenghui Plaza in early 2014, the accessibility of the Plaza will greatly enhance shopper traffic, in turn benefiting the Plaza as a whole.

With the continuing growth of local business driven economy and the interlink by high speed rail lines and highway networks, the major cities in the Pan-Pearl River Delta region have attracted our attention. We believe that the integration of infrastructure, industries and the urbanization of the region will make it one of the most fast growing in China. To capitalise on the enormous potential in the Pan-Pearl River Delta region, the Group will identify investment opportunities in property projects therein from time to time.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business partners, bankers and auditors for their support to the Group throughout the year.

Liang Wenguan
Chairman & Executive Director

Hong Kong, 28 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 31 December 2013, the Group's current assets and current liabilities were HK$120,370,000 and HK$594,415,000 respectively. The total secured bank and other loans amounted to HK$813,185,000 and HK$8,056,000 respectively.

As at 31 December 2013, main charges on assets of the Group included bank balances of HK$140,000, investment properties with fair value of HK$2,974,424,000 and leasehold land and buildings with carrying amount of approximately HK$29,231,000.

As at 31 December 2013, the Group had no capital commitments.

The Group's gearing ratio as at 31 December 2013 was 58%, which is calculated on the Group's total liabilities divided by its total assets.

FOREIGN EXCHANGE RISK

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

CONTINGENT LIABILITIES

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

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

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

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

EMPLOYEES AND REMUNERATION POLICIES

The Group had a total of approximately 100 employees, who were remunerated according to nature of the job and market trend, as well as individual qualifications and performance. The Group has participated in the Mandatory Provident Fund Scheme. On the job training was provided to its staff from time to time.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Liang Wenguan, aged 54, has been an executive Director since 15 June 2012 and also appointed as the Chairman of the Board of the Company since 27 June 2012. Mr. Liang has extensive experience in infrastructure and property development in mainland China. Equipped with a wealth of experience and excellent interpersonal relationship in the industry, Mr. Liang had been a vice president of Zhuhai City Private Enterprises Association (珠海市民營企業商會). Mr. Liang is the chairman of Zhuhai Port Plaza Development Company Limited (珠海口岸廣場發展有限公司), Madex Holdings Limited (盛明集團有限公司) and Madex International Company Limited (盛明國際有限公司). Mr. Liang had been the honorary chairman (but not a member of the Board) of the Company since 6 June 2008, and is a director of a subsidiary of the Company, Binzhou Huifeng Three-Dimension Agriculture Development Limited. Mr. Liang is a director and the sole shareholder of Madex International Company Limited, which is the controlling shareholder of the Company, and the father of Ms. Liang Huixin, another executive Director.

Mr. Zhang Guodong, aged 37, has been an executive Director since 1 March 2009. Mr. Zhang holds a Master's degree in Accountancy (MPAcc) from The Chinese University of Hong Kong and he is a certified accountant in the PRC. Mr. Zhang had worked as a project manager respectively in Beijing and Zhuhai BDO Certified Public Accountants, as well as a department manager in BDO Shenzhen Dahua Tiancheng Certified Public Accountants, and was mainly responsible for financial audit and advisory as well as tax planning work relating to companies listed in the PRC and overseas. He was then appointed as the financial controller of a few companies in the PRC respectively. Mr. Zhang is well versed in the PRC and international accounting standards, rules and regulations and has profound knowledge in finance.

Ms. Liang Huixin, aged 28, was appointed as non-executive Director on 11 August 2009 and has been re-designated as an executive Director since 8 August 2013. Ms. Liang holds a Bachelor of Science degree in economics and political science from the University of Oregon, the United States. She had served in the banking sector in Singapore before. Ms. Liang is the daughter of Mr. Liang Wenguan, the Chairman and the controlling shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Dong Ansheng, aged 62, has been an independent non-executive Director since 6 January 2006. Dr. Dong holds a Bachelor of Laws degree from the Political and Law Sciences School of Chinese Northwestern College (西北政法學院); and Master and Doctoral degrees in laws from the Law School of the Renmin University, China (中國人民大學). Dr. Dong is well versed in various areas of law and has been a lecturer in Mainland China, Hong Kong, Taiwan and Finland as well as a China law consultant to a number of companies in their listing exercise in mainland China and Hong Kong.

Dr. Dong is serving as an independent non-executive director of Shandong Tongyu Heavy Industry Company, Limited (Stock code: 300185, Shenzhen Stock Exchange) and Beijing Wangfujing Department Store (Group) Limited (Stock code: 600859, Shanghai Stock Exchange). Dr. Dong had served as an independent non-executive director of BOE Technology Group Company, Limited (Stock code: 000725, Shenzhen Stock Exchange), Sichuan Western Resources Company, Limited (Stock code: 600139, Shanghai Stock Exchange), Beijing Capital International Airport Corporation Limited (Stock code: 694, SEHK) and Zhongjin Gold Company, Limited (Stock code: 600489, Shanghai Stock Exchange).

Mr. Hung Hing Man, aged 43, has been an independent non-executive Director since 23 September 2009. Mr. Hung holds a Master's degree in Business Administration from the University of Western Sydney. He is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Taxation Institute of Hong Kong and a member of the Society of Chinese Accountants and Auditors. Mr. Hung has extensive experience in the sectors of corporate finance, accounting, auditing and taxation and is currently a proprietor of a certified public accountants firm. Mr. Hung also serves as an independent non-executive director of China Gamma Group Limited (Stock code: 164, SEHK). Mr. Hung was an independent non-executive director of Eternity Investment Limited (Stock Code: 764, SEHK) and SMI Corporation Limited (stock code: 198, SEHK).

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining the highest standards of corporate governance that properly protect and promote the interests of all shareholders at all times. The Board believes that good corporate governance practices are the cornerstones for a successful business.

CODE OF CORPORATE GOVERNANCE PRACTICE

The Board regularly reviews the Group's corporate governance guidelines and practices. During the year, the Company has applied the principles and complied with all the relevant code provisions prescribed in the Corporate Governance Code ("Code Provisions") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") except the deviation of the following Code Provisions:

(1) Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same person. The Company currently has no CEO. Decisions of the Company are made collectively by the executive Directors. The Board believes that the present arrangement enables the Company to make and implement decisions promptly, and thus achieve the Company's objectives efficiently and effectively in response to the changing environment.

(2) Under Code Provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. None of the independent non-executive Directors are appointed for a specific term but all of them would be subject to retirement by rotation in accordance with the Company's Bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD OF DIRECTORS

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

During the year, the Board was composed of three executive Directors and three independent non-executive Directors as set out below.

Executive Directors

Mr. Liang Wenguan
Mr. Zhang Guodong
Ms. Liang Huixin

Independent Non-executive Directors

Dr. Dong Ansheng
Mr. Hung Hing Man
Dr. Tam Hok Lam, Tommy, *JP* *(Passed away on 17 February 2014)*

Save as Mr. Liang Wenguan, the Chairman, an executive Director and the controlling shareholder of the Company, is the father of Ms. Liang Huixin, aonther executive Director, the other Board members have no financial, business, family or other material/relevant relationships with each other.

The biographical details of the Directors are set out in the section "Biographical Details of Directors" of this Annual Report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year, the role of Chairman of the Company was performed by Mr. Liang Wenguan. The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company and leading the Board to work efficiently and discharge its responsibilities and ensuring that all key and appropriate issues are discussed by the Board in a timely manner.

The Company currently has no CEO. However, the Board considers that the structure does not impair the management of the Group. Decisions of the Company are made collectively by the executive Directors to execute strategies set by the Board and assume daily management of the Group and report back to the Board on a regular basis.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has three independent non-executive Directors until Dr. Lam Hok Lam, Tommy passed away on 17 February 2014, but the remainder is still representing more than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise.

The functions of independent non-executive Directors are primarily to bring an independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts at board meetings.

CONFIRMATION OF INDEPENDENCE

Each of the independent non-executive Directors has made an annual confirmation of independence by reference to Rule 3.13 of the Listing Rules, except Dr. Tam Hok Lam, Tommy and the Company considers that all independent non-executive Directors were independent during the year.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

The Company provides regular updates on the business development of the Group. The Directors are regularly provided information on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices. All Directors have participated in appropriate continuous professional development and refreshed their knowledge and skills during the year for ensuring that their contribution to the Board remains informed and relevant and be kept abreast of the ever changing business environment. Such professional development was undergone either by way of attending briefings, conference, courses, forum and seminars, or through teaching, self-reading and participating in business-related researches which are relevant to the business of the Group or directors' duties.

BOARD MEETINGS HELD AND ATTENDANCE

The Code Provisions require regular meetings of the Board be held at least four times a year at approximately quarterly intervals. Such Board meetings involve the active participation, either in person or by telephone conference.

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

		Meetings Attended/(Held)			
	Note	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**
Executive Directors					
Mr. Zhang Guodong		7/(8)	N/A	N/A	N/A
Mr. Liang Wenguan		8/(8)	N/A	3/(3)	2/(2)
Ms. Liang Huixin	1	4/(4)	N/A	N/A	N/A
Independent Non-executive Directors					
Dr. Dong Ansheng		6/(7)	2/(2)	3/(3)	2/(2)
Mr. Hung Hing Man		7/(7)	2/(2)	3/(3)	2/(2)
Dr. Tam Hok Lam, Tommy, *JP*	2	7/(7)	2/(2)	3/(3)	2/(2)

Notes:

1. Re-designated as an executive Director from a non-executive Director on 8 August 2013.

2. Passed away on 17 February 2014.

AUDIT COMMITTEE

The Audit Committee comprises all three independent non-executive Directors until Dr. Lam Hok Lam, Tommy passed away on 17 February 2014 and is chaired by Mr. Hung Hing Man, who has appropriate professional qualifications and experience as required by the Listing Rules. The Audit Committee's terms of reference are in conformity with the requirements of the Code Provisions, and are published on the websites of the Company and the SEHK. The primary duties of the Audit Committee include the following:

(a) monitor and ensure a proper relationship with the Company's external auditor;

(b) review of the Group's interim and annual reports and compliance with accounting standards, the Listing Rules, and legal requirements before submission to the Board; and

(c) oversight of the Company's financial reporting process and internal control system.

The Audit Committee held two meetings during the year, to review the Group's interim and final financial statements, to meet and discuss with the external auditor about audit findings, and discuss with the management about re-appointment of the external auditor.

The Audit Committee has reviewed the audited financial statements of the Group for the year and recommended to the Board for its approval.

REMUNERATION COMMITTEE

The Remuneration Committee comprises all three independent non-executive Directors and Mr. Liang Wenguan, an executive Director and was chaired by Dr. Tam Hok Lam, Tommy (until Dr. Lam Hok Lam, Tommy passed away on 17 February 2014). The primary duties of the Remuneration Committee are making recommendations to the Board on the Group's policy and structure for the Directors and senior management remuneration, making recommendations on the remuneration packages of individual Director and ensuring that no Director or any of his associates is involved in deciding his own remuneration. The terms of reference of the Remuneration Committee are in conformity with the requirements of the Code Provisions, and are published on the websites of the Company and the SEHK.

The Remuneration Committee held two meetings during the year to review the remuneration package of the Directors and senior management.

NOMINATION COMMITTEE

The Nomination Committee comprises all three independent non-executive Directors (until Dr. Lam Hok Lam, Tommy passed away on 17 February 2014) and Mr. Liang Wenguan, an executive Director and is chaired by Dr. Dong Ansheng. The primary duties of the Nomination Committee are to review the size, structure, composition and divisity of the Board, identify suitably qualified individuals for appointment to the Board, assess the independence of independent non-executive Directors and make recommendations to the Board on the election or re-election of the Directors and succession planning for the Directors. The terms of reference of the Nomination Committee are in conformity with the requirements of the Code Provisions, and are published on the websites of the Company and the SEHK.

The Nomination Committee held three meetings during the year to review the composition of the Board and the suitability of the Directors proposed for re-election at the AGM.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Chan Kwan Pak is the Company Secretary of the Company. He is an external service provider and was appointed by the Board. Mr. Chan supports the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. He also advises the Board on corporate governance matters and facilitates induction and professional development of the Directors. Mr. Chan reports directly to the Chairman. Despite of that, all the Directors have access to the advice and services of the Company Secretary at any time in relation to their duties and operation of the Board. The Company Secretary participated in no less than 15 hours of relevant professional training during the year.

INTERNAL CONTROL

The Board acknowledges that it has an overall responsibility for maintaining an adequate and effective internal control system of the Group. The Group's internal control system includes a well defined management structure with limits of authority which is designed for the achievement of business objectives, to safeguard the Group's assets against unauthorized use and disposition, to ensure compliance with relevant legislation and regulations, and to protect the interests of shareholders of the Company.

During the year, the Board has reviewed the effectiveness of certain of the Group's system of internal controls. Relevant applicable recommendations made by a management in the past are being implemented in stages by the Group to further enhance its internal control system.

The Group's external auditor, Pan-China (HK) CPA Limited, contributes an independent perspective on relevant internal controls arising from the audit and report findings to the Audit Committee.

AUDITOR'S REMUNERATION

Total auditors remuneration in relation to statutory audit work of the Group amounted to HK$900,000 (2012: HK$850,000). HK$200,000 (2012: Nil) was incurred for other non-audit services provided by the auditor for the Group during the year.

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board has established a shareholders' communication policy to maintain an on-going dialogue with its shareholders and investors in a timely, open and transparent manner. The Board reviews the policy on a regular basis to ensure effective communication between the Company, and its shareholders and investors.

The Board communicates with its shareholders and investors through various channels. The Board members meet and communicate with shareholders and investors at AGMs and other general meetings. Corporate communications (such as interim and annual reports, notices, circulars and announcements) are sent to shareholders in a timely manner and are available on the websites of the Company and the SEHK.

SHAREHOLDERS' RIGHTS

Procedures for Nomination of a Director

A notice in writing of the intention to propose a person for election as a director of the Company and a notice in writing by that person of his willingness to be elected together with his/her particulars (such as qualifications and experience) and information as required to be disclosed under Rule 13.51(2) of the Rules Governing the Listing of Securities on the SEHK shall be lodged at the Company's head office and principal place of business (Suite 3005, 30/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong) or at its branch share registrar in Hong Kong, Tricor Tengis Limited (Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong). The period for lodgment of the notices required will 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 7 days prior to the date of such general meeting, and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

Shareholders to convene a Special General Meeting

Special general meetings shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board of Directors or the Secretary of the Company (Suite 3005, 30/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong) for the purpose of requiring a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may convene such meeting, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. Such meeting shall be held within 3 months after the deposit of such requisition.

REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries and joint venture are set out in detail in notes 37 and 21, respectively, to the financial statements. There was no change in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2013 is set out in note 8 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2013 and the state of affairs of the Group at that date are set out in the financial statements on pages 21 to 27.

The Directors do not recommend the payment of any dividends in respect of the year ended 31 December 2013 (2012: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2013, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 99. The summary is not part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 17 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 18 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 32 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group are set out in note 39 to the financial statements and on page 25 respectively.

DISTRIBUTABLE RESERVES

At 31 December 2013 the Company did not have any reserves available for distribution to equity shareholders of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

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

DIRECTORS

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

Executive Directors

Mr. Liang Wenguan *(Chairman)*
Mr. Zhang Guodong
Ms. Liang Huixin *(Re-designated as an executive Director from a non-executive Director on 8 August 2013)*

Independent Non-executive Directors

Dr. Dong Ansheng
Mr. Hung Hing Man
Dr. Tam Hok Lam, Tommy, *JP* *(Passed away on 17 February 2014)*

Dr. Dong Ansheng and Ms. Liang Huixin shall retire at the forthcoming AGM in accordance with Bye-law 109(A), and all being eligible, offer themselves for re-election as Directors at the AGM.

CHANGES IN DIRECTORS' INFORMATION

As announced by the Company on 8 August 2013, Ms. Liang Huixin has been re-designated from non-executive Director to exexutive Director and she is entitled to a remuneration of HK$845,000 per annum. Save as disclosed above, there were no changes in information on directors of the Company pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' SERVICE AGREEMENTS

Mr. Liang Wenguan has entered into a service agreement with the Company for an initial term of two years commencing on 15 June 2012 and the agreement shall continue thereafter unless terminated in accordance with the terms of the service agreements.

Mr. Zhang Guodong and Ms. Liang Huixin have each entered into a service agreement with the Company for an initial term of three years commencing on 1 March 2012 and 8 August 2013 respectively and the agreements shall continue thereafter unless terminated in accordance with the terms of the service agreements.

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

At 31 December 2013, none of the Directors were interested in any business apart from the Group's businesses which competed or was likely to compete, either directly or indirectly, with business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

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

As at 31 December 2013, the Directors and chief executives of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code:

(a) Interest in Shares:

Name of Director	Type of interests	Number of shares held	Percentage of interests
Mr. Liang Wenguan ("Mr. Liang")	Personal	5,636,969,292 (L)	47.60%
	Interest of controlled corporation *(Note 1)*	1,020,549,171 (L)	8.62%
	Total	6,657,518,463 (L)	56.22%

(L) denotes long position

Note 1: The Shares were held by Madex International Company Limited, a company which is 100% owned by Mr. Liang.

(b) Interest in underlying shares:

Name of Director	Nature of interests	Description of securities	Number of underlying shares	Approximate % of interests
Mr. Liang	Beneficial	Convertible Notes *(Note 2)*	1,796,015,625 (L)	15.17%

(L) denotes long position

Note 2: Pursuant to a very substantial acquisition and connected transaction as detailed in a circular of the Company dated 25 May 2011, the Company will, subject to the fulfillment of certain conditions, allot a maximum of 5,721,961,219 conversion shares (under convertible notes in the principal amount of HK$732,411,036.12) to Profit China Investment Development Limited ("Profit China"), which is 100% held by Ms. Tam Ping Foon Calana in trust for Mr. Liang. As at 31 December 2013, the outstanding principal amount of convertible notes held by Profit China was HK$229,890,000 (representing 1,796,015,625 conversion shares).

Save as disclosed above, as at 31 December 2013, none of the Directors and chief executives of the Company or their associates had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code.

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

As at 31 December 2013, the interests of substantial shareholders (other than the Directors or chief executives) in the Shares or the underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of substantial shareholder	Nature of interests	Number or attributable number of shares held or short positions	Approximate percentage or attributable percentage of shareholding
Mr. Huo Zhiwei	Personal	998,280,000 (L)	8.43%
China International Capital Corporation Limited	Corporation *(Note 1)*	844,758,000 (L)	7.13%

(L) denotes long position

Note 1: The Shares were held by China International Capital Corporation Hong Kong Securities Limited, a company which is 100% owned by China International Capital Corporation (Hong Kong) Limited and which is 100% owned by China International Capital Corporation Limited

Save as disclosed above, as at 31 December 2013, there was no other person (other than the Directors or chief executives of the Company) who had any interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the SEHK.

SHARE OPTION SCHEME

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

The maximum number of shares in respect of which options may be granted under the Scheme must not in aggregate exceed 10% of the total number of shares in issue on the date of adoption of the Scheme, being 393,332,950 shares. The total number of shares which may fall to be issued upon exercise of the share options granted under the Scheme to each Grantee in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant.

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

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

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

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

No share options under the Scheme were granted or exercised during the year nor remained outstanding as at 31 December 2013.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 40 to the financial statements.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

There was no transaction during the year falling under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. Details of related party transactions are provided in note 33 to the financial statements.

MATERIAL CONTRACTS

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

– The Group entered into a conditional sale and purchase Agreement on 17 September 2013, to dispose of its entire interests in Dynamic Progress Development Limited, a wholly-owned subsidiary of the Company, which held 100% interest in Harbin DG Property Company Limited, to Precious Sky Limited, an independent third party at a consideration of RMB150,000,000 and the transaction was completed on 28 February 2014.

CONTINGENT LIABILITIES

Details of the contingent liabilities are provided in note 38 to the financial statements.

PUBLIC FLOAT

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

AUDIT COMMITTEE

The Audit Committee has reviewed and approved the Group's annual results for the year ended 31 December 2013 in conjunction with the Company's external auditor prior to their approval by the Board. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 6 to 11.

REPORT OF THE DIRECTORS

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2013 have been audited by Pan-China (H.K.) CPA Limited ("Pan-China"). Pan-China was appointed on 15 June 2012 as the independent auditor of the Company to fill the casual vacancy following the retirement of SHINEWING (HK) CPA Limited on 15 June 2012. Save for the above, there were no other changes in the Company's auditor in the past three years. Pan-China will retire at the conclusion of the forthcoming AGM and, being eligible, offer itself for re-appointment at the forthcoming AGM. A resolution for reappointment of Pan-China as auditor of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Zhang Guodong
Executive Director

Hong Kong, 28 March 2014

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Madex International (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 98, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates that the Group's current liabilities exceeded its current assets by approximately HK$474,045,000 as at 31 December 2013. As explained in note 2, the consolidated financial statements have been prepared on a going concern basis and do not include any adjustments that would result from the failure to operate as a going concern.

PAN-CHINA (H.K.) CPA LIMITED
Certified Public Accountants
Chan Kin Wai
Practising Certificate Number: P05342

11/F, Hong Kong Trade Centre
161-167 Des Voeux Road Central
Hong Kong

28 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
Revenue	9	**31,881**	26,702
Cost of sales		**(7,056)**	(6,933)
Gross profit		**24,825**	19,769
Other revenue	9	**6,254**	8,061
Administrative expenses		**(75,101)**	(47,054)
Finance costs	10	**(33,792)**	(42,683)
Fair value change in investment properties	18	**(407,080)**	92,285
Fair value change on derivative financial assets	27	**(2,838)**	10,453
Fair value change on derivative financial liabilities	27	**9,390**	2,557
Fair value change on contingent consideration	29	**19,733**	(1,546)
Derecognition of contingent consideration	29	**49,655**	–
Written back of impairment loss in respect of other receivables		**–**	289
Impairment loss on goodwill		**–**	(9,780)
Impairment loss recognised in respect of trade and other receivables	22	**(272)**	(377)
Share of profits of a joint venture	21	**3,371**	3,507
(Loss)/profit before tax		**(405,855)**	35,481
Income tax credit/(expenses)	11	**101,769**	(23,071)
(Loss)/profit for the year	12	**(304,086)**	12,410
(Loss)/profit for the year attributable to owners of the Company		**(304,086)**	16,925
Loss for the year attributable to non-controlling interests		**–**	(4,515)
		(304,086)	12,410
(Loss)/earnings per share	16		
– Basic and diluted		**(2.58 cents)**	0.17 cents

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
(Loss)/profit for the year	**(304,086)**	12,410
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of financial statements	**47,083**	11,999
Other comprehensive income for the year	**47,083**	11,999
Total comprehensive (expense)/income for the year	**(257,003)**	24,409
Total comprehensive (expense)/income attributable to:		
Owners of the Company	**(257,003)**	29,148
Non-controlling interests	**–**	(4,739)
	(257,003)	24,409

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**32,736**	32,212
Investment properties	18	**2,974,424**	3,098,756
Intangible asset	19	**39,842**	42,305
Available-for-sale investments	20	**–**	–
Interest in a joint venture	21	**47,097**	43,725
		3,094,099	3,216,998
CURRENT ASSETS			
Trade and other receivables	22	**73,108**	22,018
Pledged bank balances	23	**140**	135
Derivative financial assets	27	**5,839**	30,852
Bank balances and cash	23	**41,283**	6,909
		120,370	59,914
CURRENT LIABILITIES			
Other payables	24	**382,505**	200,326
Borrowings	25	**123,046**	148,413
Tax liabilities		**210**	210
Amount due to a related party	26	**2,564**	2,564
Amount due to a shareholder	26	**18,548**	86,172
Amount due to a joint venture	26	**49,503**	7,274
Derivative financial liabilities	27	**18,039**	97,528
		594,415	542,487
NET CURRENT LIABILITIES		**(474,045)**	(482,573)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,620,054**	2,734,425

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
CAPITAL AND RESERVES			
Share capital	32	**592,132**	542,218
Reserves		**757,794**	934,676
TOTAL EQUITY		**1,349,926**	1,476,894
NON-CURRENT LIABILITIES			
Borrowings	25	**709,868**	462,687
Deferred tax liabilities	28	**379,204**	467,349
Convertible notes	27	**36,492**	113,543
Provision for contingent consideration	29	**144,564**	213,952
		1,270,128	1,257,531
		2,620,054	2,734,425

The consolidated financial statements on pages 21 to 98 were approved and authorised for issue by the board of directors on 28 March 2014 and are signed on its behalf by:

Liang Wenguan	**Zhang Guodong**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company							
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	(Accumulated losses) retained earnings HK$'000	Total HK$'000	Non–controlling interests HK$'000	Total HK$'000
At 1 January 2012	415,366	633,604	52	68,539	(4,743)	1,112,818	4,739	1,117,557
Profit for the year	–	–	–	–	16,925	16,925	(4,515)	12,410
Other comprehensive income	–	–	–	12,223	–	12,223	(224)	11,999
Total comprehensive income for the year	–	–	–	12,223	16,925	29,148	(4,739)	24,409
Converted convertible note into shares (note 27)	126,852	208,076	–	–	–	334,928	–	334,928
At 31 December 2012	542,218	841,680	52	80,762	12,182	1,476,894	–	1,476,894

	Attributable to owners of the Company							
	Share capital HK$'000	**Share premium HK$'000**	**Capital redemption reserve HK$'000**	**Translation reserve HK$'000**	**Retained earnings (accumulated losses) HK$'000**	**Total HK$'000**	**Non–controlling interests HK$'000**	**Total HK$'000**
At 1 January 2013	**542,218**	**841,680**	**52**	**80,762**	**12,182**	**1,476,894**	**–**	**1,476,894**
Loss for the year	**–**	**–**	**–**	**–**	**(304,086)**	**(304,086)**	**–**	**(304,086)**
Other comprehensive income	**–**	**–**	**–**	**47,083**	**–**	**47,083**	**–**	**47,083**
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**47,083**	**(304,086)**	**(257,003)**	**–**	**(257,003)**
Converted convertible note into shares (note 27)	**49,914**	**80,121**	**–**	**–**	**–**	**130,035**	**–**	**130,035**
At 31 December 2013	**592,132**	**921,801**	**52**	**127,845**	**(291,904)**	**1,349,926**	**–**	**1,349,926**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
OPERATING ACTIVITIES		
(Loss)/Profit before tax for the year	**(405,855)**	35,481
Adjustments for:		
Depreciation for property, plant and equipment	**1,593**	1,148
Amortisation of prepaid lease payments	**–**	69
Amortisation of an intangible asset	**3,625**	3,480
Impairment loss recognised in respect of trade and other receivable	**272**	377
Written back of impairment of other receivables	**–**	(289)
Write-back of other tax in PRC	**–**	(7,852)
Fair value change on investment properties	**407,080**	(92,285)
Fair value change on derivative financial assets	**2,838**	(10,453)
Fair value change on derivative financial liabilities	**(9,390)**	(2,557)
Fair value change on contingent consideration	**(19,733)**	1,546
Derecognition of contingent consideration	**(49,655)**	–
Finance costs	**33,792**	42,683
Interest income	**(122)**	(196)
Share of profits of a joint venture	**(3,371)**	(3,507)
Impairment loss recognised on properties, plant and equipment, prepaid lease payments and others	**–**	8,478
Impairment loss on goodwill	**–**	9,780
Operating cash flows before movements in working capital	**(38,926)**	(14,097)
Increase in inventories	**–**	(328)
Increase in other payables	**81,179**	14,384
Increase in trade and other receivables	**(51,362)**	(13,521)
Net cash used in operating activities	**(9,109)**	(13,562)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
INVESTING ACTIVITIES			
Cash inflow from acquisition of net assets through an acquisition of a subsidiary	31	**–**	62
Additions of investment properties		**(163,578)**	(46,515)
Interest received		**122**	196
Decrease in pledged bank balances		**–**	3,896
Purchase of property, plant and equipment		**(2,096)**	(85)
Deposit received for disposal of subsidiaries		**101,000**	–
Net cash used in investing activities		**(64,552)**	(42,446)
FINANCING ACTIVITIES			
New borrowings raised		**454,625**	196,891
Repayments of borrowings		**(249,023)**	(137,001)
Advance from a joint venture		**42,229**	2,000
Advance from a related party		**–**	708
(Repayment to)/advance from a shareholder		**(71,089)**	40,999
Interest paid		**(65,120)**	(49,934)
Net cash generated from financing activities		**111,622**	53,663
Net decrease in cash and cash equivalents		**37,961**	(2,345)
Cash and cash equivalents at 1 January		**6,909**	11,646
Effect of foreign exchange rate changes		**(3,587)**	(2,392)
Cash and cash equivalents at 31 December represented by bank balances and cash		**41,283**	6,909

1. GENERAL

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

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

The Company is an investment holding company. The principal activities of the subsidiaries are set out in note 37.

2. BASIS OF PREPARATION

The Group's current liabilities exceeded its current assets by approximately HK$474,045,000 as at 31 December 2013. Nevertheless, the consolidated financial statements of the Group have been prepared by the directors of the Company on a going concern basis.

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

(i) the Group is able to generate positive cash flows.

(ii) a standby loan facility of RMB180,000,000 (approximately HK$230,179,000) has been granted to the Group from 20 March 2014 to 20 September 2016 per a loan confirmation letter signed on 20 March 2014. The terms of the loan including interests charged, securities/guarantee provided, loan period and repayment terms are negotiable upon the withdrawal of loans.

(iii) bank loans with the aggregate carrying amount of approximately HK$15,154,000 that are repayable more than one year after the end of the reporting period per loan agreements, with repayment on demand clause, have been classified as current liabilities as at 31 December 2013 in order to comply with the requirements set out in Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause. Taking into account the Group's financial position, the directors of the Company believe that the bank will not exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

(iv) as at 31 December 2013, included in the current liabilities of the Group was derivative financial liabilities of approximately HK$18,039,000 which represented an option to ensure the holders to subscribe for convertible notes to be issued with a maturity date of 5 years upon issuance of the convertible notes on 7 July 2011. Such derivative financial liabilities shall not have any cash outflow impact on the Group.

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

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

New standards, amendments and interpretations to HKFRS that are effective for accounting periods beginning on or after 1 January 2013.

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2013.

HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of financial statements – Presentation of items of other comprehensive income
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle except for HKAS1(Amendments)
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 "Consolidated financial statements", HKFRS 11 "Joint arrangements", HKFRS 12 "Disclosure of interests in other entities", HKAS 27 (as revised in 2011) "Separate financial statements" and HKAS 28 (as revised in 2011) "Investments in associates and joint ventures", together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

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

IMPACT OF THE APPLICATION OF HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK(SIC) Int-12 "Consolidation – Special purpose entities". HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The directors of the Company have made an assessment as at the date of initial application of HKFRS 10 (i.e. 1 January 2013) in respect of the Group's control in its investees under the new definition in the new and revised HKFRSs and concluded that the application of the new standard has no impact on the classification of investees currently reported in the consolidated financial statements.

IMPACT OF THE APPLICATION OF HKFRS 11

HKFRS 11 replaces HKAS 31 "Interests in joint ventures", and the guidance contained in a related interpretation, HK(SIC)-Int 13 "Jointly controlled entities – non-monetary contributions by venturers", has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

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

IMPACT OF THE APPLICATION OF HKFRS 11 *(continued)*

The directors of the Company reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of HKFRS 11. The directors concluded that the Group's investments in Madex (Zhuhai) Limited, which was classified as a jointly controlled entity under HKAS 31 and was accounted for using the equity method, should be classified as joint venture under HKFRS 11 and accounted for using the equity method. Therefore, the application of HKFRS 11 in the current year has had no material impact on the Group's consolidated financial statements for the current and prior years and/or the disclosures set out in the consolidated financial statements.

IMPACT OF THE APPLICATION OF HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements with respect to the Group's interests in joint venture.

HKFRS 13 "FAIR VALUE MEASUREMENT"

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of HKFRS 13 is broad; the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

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

AMENDMENTS TO HKAS 1 PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

The Group has applied the amendments to HKAS 1 "Presentation of items of other comprehensive income". Under the amendments to HKAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed as the 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[1]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2010–2012 cycle[3]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011–2013 cycle[2]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 9	Financial instruments: Hedge accounting[4]
HKFRS 14	Regulatory Deferral Accounts[5]
HK(IFRIC)-Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 July 2014, with earlier application is permitted.
3 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
4 Effective for annual periods beginning on or after 1 January 2015.
5 Effective for annual periods beginning on or after 1 January 2016.

The directors are in the process of making an assessment of the potential impacts of these new and revised HKFRSs and they are so far concluded that the application of these new and revised HKFRSs will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has right, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

ALLOCATION OF TOTAL COMPREHENSIVE INCOME TO NON-CONTROLLING INTERESTS

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

CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. 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 owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES *(continued)*

Changes in the Group's ownership interests in an existing subsidiary through distribution of shares in the subsidiary to the shareholders of the Company where the subsidiary is ultimately controlled by the same party both before and after the distribution, the carrying amount of the Group's interest and the non-controlling interest are adjusted to reflect the changes in its relative interest in the subsidiary. The Group measures the distribution and the ability to distribute non-cash assets as a dividend to its owners at the proportionate share of the carrying amount of the subsidiary's net assets and transfer to non-controlling interests.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

INTEREST IN A JOINT VENTURE

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of joint ventures equals or exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

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

When a group entity transacts with its joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

REVENUE RECOGNITION

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

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENT PROPERTIES

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

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

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

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

INTANGIBLE ASSETS

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

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

IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

LEASING

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

The Group as lessor

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

The Group as lessee

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

LEASEHOLD LAND AND BUILDINGS

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

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

FOREIGN CURRENCIES

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FOREIGN CURRENCIES *(Continued)*

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

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

BORROWING COSTS

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

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

GOVERNMENT GRANTS

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Other government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

RETIREMENT BENEFIT COSTS

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

TAXATION

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

TAXATION *(Continued)*

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

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

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

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

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodies in the investment property over time, rather than through sale.

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

CASH AND CASH EQUIVALENTS

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

PROVISIONS

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

Contingent liabilities Acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of the subsequent reporting period, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortization recognised in accordance with HKAS 18 *Revenue*.

FINANCIAL INSTRUMENTS

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

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

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss ("FVTPL") and loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments. A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. Fair value is determined in the manner described in note 27.

Loans and receivables

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

Impairment loss on financial assets

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

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

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

– significant financial difficulty of the issuer or counterparty; or

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

– it becoming probable that the borrower will enter into bankruptcy or financial re- organisation; or

– disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

Impairment loss on financial assets *(Continued)*

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

Financial liabilities and equity instruments

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

Equity instruments

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

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

Other financial liabilities

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

Financial liabilities at fair value through profit or loss

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

A financial liability may be designated as at FVTPL upon initial recognition if:

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

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

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

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Convertible notes

The component parts of compound instruments (convertible notes) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to their relative fair values. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Effective interest method

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

Interest is recognised on an effective interest basis.

Derivative financial instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Derecognition

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

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

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

(i) Going concern basis

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

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

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES *(Continued)*

(ii) Potential litigation

As detailed in note 38, in connection with the litigation of the Acquired Group, the directors of the Company considered that they have strong and valid ground of defense in relation to the potential claims in respect of the Problematic Properties as detailed in note 18 and has the right to occupy and lease the Problematic Properties to other tenants to generate rental income. The directors of the Company considered that Chongqing Kings Mall Business Management Company Limited (重慶帝景摩爾商業管理有限公司) (formerly Chongqing Kings Mall Real Estate Development Co., Ltd., (重慶帝景摩爾房地產開發有限公司) ("Kings Mall Management") would not suffer material financial losses arising from such litigation. Thus, no provision is required to be made in the consolidated financial statements.

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

(ii) Fair value of investment properties

Investment properties are carried in the consolidated statement of financial position at their fair value. The fair value was based on a valuation on these properties conducted by Asset Appraisals Limited, professional independent valuers not connected to the Group, using property valuation techniques which involve making assumptions on certain market conditions and or by reference to combined result of the different property valuation techniques, if necessary. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and the corresponding adjustments to the gain or loss recognised in the consolidated statement of profit or loss. As at 31 December 2013, the Group's investment properties are stated at fair value of approximately HK$2,974,424,000 (2012: approximately HK$3,098,756,000).

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

KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(iii) Estimated impairment loss on an intangible asset

Intangible asset is tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to impairment loss. The recoverable amount is the value-in-use. The value-in-use calculation requires the directors of the Company to estimate the future cash flows expected to arise from the relevant cash generating unit and a suitable discount rate is used in order to calculate the present value. As at 31 December 2013, the carrying amount of intangible asset was approximately HK$39,842,000, net of accumulated amortisation of approximately HK$17,069,000 (2012: carrying amount of approximately HK$42,305,000, net of accumulated amortisation of approximately HK$13,049,000).

(iv) Estimated impairment loss on trade and other receivables

The Group maintains an allowance for estimated loss arising from the inability of its individual customers to make the required payments. The Group makes its estimates based on the history of its client, such as financial difficulties or default payments and current market conditions. If the financial condition of its individual customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected. As at 31 December 2013, the carrying amount of trade and other receivables was approximately HK$73,108,000, net of allowance for doubtful debts of approximately HK$20,186,000 (2012: carrying amount of approximately HK$22,018,000, net of allowance for doubtful debts of approximately HK$19,914,000).

(v) Estimated provision for current and deferred taxation

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

(vi) Fair value of derivatives and other financial instruments

As described in notes 27 and 29, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Based on the best estimate of the directors of the Company on the current status of conditions, the Second Convertible Note as defined in note 29 will be issued on 31 December 2014. The Third Convertible Note was cancelled during the year ended 31 December 2013. Details of the cancellation was disclosed in note 29. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The carrying amount of the derivative financial assets, derivative financial liabilities, provision for contingent consideration and convertible notes as at 31 December 2013 is HK$5,839,000 (2012: HK$30,852,000), HK$18,039,000 (2012: HK$97,528,000), HK$144,564,000 (2012: HK$213,952,000) and HK$36,492,000 (2012: HK$113,543,000) respectively. Details of the assumptions used are disclosed in notes 27 and 29. The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which included the borrowings disclosed in note 25, convertible notes disclosed in note 27, amounts due to a shareholder/a related party/a joint venture, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

There is no change in the capital risk management policy adopted by the Company during the two years ended 31 December 2013 and 31 December 2012.

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

7. FINANCIAL INSTRUMENTS

a) CATEGORIES OF FINANCIAL INSTRUMENTS

	2013 HK$'000	2012 HK$'000
Financial assets		
Fair value through profit or loss		
– Derivative financial assets	**5,839**	30,852
Available-for-sale investments	**–**	–
Loan and receivables		
– Trade and other receivables	**28,116**	18,450
– Pledged bank balances	**140**	135
– Bank balances and cash	**41,283**	6,909
	69,539	25,494
	75,378	56,346
Financial liabilities		
Fair value through profit or loss		
– Provision for contingent consideration	**144,564**	213,952
– Derivative financial liabilities	**18,039**	97,528
	162,603	311,480
Other financial liabilities at amortised cost		
– Other payables	**238,770**	160,978
– Borrowings	**832,914**	611,100
– Amount due to a related party	**2,564**	2,564
– Amount due to a shareholder	**18,548**	86,172
– Amount due to a joint venture	**49,503**	7,274
– Convertible notes	**36,492**	113,543
	1,178,791	981,631
	1,341,394	1,293,111

7. FINANCIAL INSTRUMENTS *(continued)*

b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES

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

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

Market risk

(i) Foreign currency risk

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

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

	Assets		**Liabilities**	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**43,077**	13,670	**1,049,554**	183,034

7. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk (Continued)

(i) Foreign currency risk (Continued)

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2012: 5%) increase and decrease in RMB against the relevant foreign currency. 5% (2012: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the Group. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% (2012: 5%) against the relevant currency. For a 5% (2012: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

	HKD impact	
	2013	2012
	HK$'000	HK$'000
Profit or loss	**50,324**	8,468

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate bank borrowings (see note 25) and cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings at prevailing market rates (see notes 23 and 25 respectively). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The directors of the Company consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

Interest rate sensitivity

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 25 basis points (2012: 25 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 (2012: 25) basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2013 would decrease/increase by approximately HK$1,929,000 (2012: HK$1,360,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits and bank borrowings.

7. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk

As at 31 December 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group has a certain degree of concentration of credit risk as 99% (2012: 99%) and 100% (2012: 100%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively. However, the directors of the Company consider the credit risk is under control since the management exercise due care in granting credit and check the financial background of these customers on a regular basis.

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% of the total trade receivables as at 31 December 2013 and 2012.

Liquidity risk

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

The Group is exposed to liquidity risk as at 31 December 2013 as the Group had net current liabilities of approximately HK$474,045,000 (2012: HK$482,573,000). The liquidity of the Group primarily depends on the future funding being available and the ability of the Group to meet its financial obligations as they fall due. Details are set out in note 2.

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

7. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk (Continued)

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

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

As at 31 December 2013

	Weighted average interest rate	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Carrying amount HK$'000
Other payables	–	238,770	–	–	–	238,770	238,770
Amount due to a related party	–	2,564	–	–	–	2,564	2,564
Amount due to a shareholder	–	18,548	–	–	–	18,548	18,548
Amount due to a joint venture	–	49,503	–	–	–	49,503	49,503
Derivative financial liabilities	–	–	–	–	–	–	18,039
Convertible notes	–	–	–	36,492	–	36,492	36,492
Provision for contingent consideration	–	–	–	–	–	–	144,564
Borrowings	9.65%	198,333	220,992	577,575	57,112	1,054,012	832,914
		507,718	220,992	614,067	57,112	1,399,889	1,341,394

7. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk (Continued)

As at 31 December 2012

	Weighted average interest rate	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Carrying amount HK$'000
Other payables	–	160,978	–	–	–	160,978	160,978
Amount due to a related party	–	2,564	–	–	–	2,564	2,564
Amount due to a shareholder	–	86,172	–	–	–	86,172	86,172
Amount due to a joint venture	–	7,274	–	–	–	7,274	7,274
Derivative financial liabilities	–	–	–	–	–	–	97,528
Convertible notes	–	–	–	177,780	–	177,780	113,543
Provision for contingent consideration	–	–	–	–	–	–	213,952
Borrowings	9.08%	161,893	73,999	441,765	115,259	792,916	611,100
		418,881	73,999	619,545	115,259	1,227,684	1,293,111

Bank loans with a repayment clause are included in the "within 1 year or on demand" time band in the above maturity analysis. As at 31 December 2013 and 31 December 2012, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$15,154,000 and HK$16,637,000 respectively. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid 11 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$18,165,000 (2012: HK$18,756,000).

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

7. FINANCIAL INSTRUMENTS *(continued)*

c) FAIR VALUE

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

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

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

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

Fair value measurements recognised in the consolidated statement of financial position

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

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

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

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

	31/12/2013			
	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Financial assets at FVTPL				
Derivative financial assets	–	–	5,839	5,839
Financial liabilities at FVTPL				
Derivative financial liabilities	–	–	18,039	18,039
Provision for contingent consideration	–	–	144,564	144,564
	–	–	162,603	162,603

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

7. FINANCIAL INSTRUMENTS *(continued)*

c) FAIR VALUE *(Continued)*

	31/12/2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL				
Derivative financial assets	–	–	30,852	30,852
Financial liabilities at FVTPL				
Derivative financial liabilities	–	–	97,528	97,528
Provision for contingent consideration	–	–	213,952	213,952
	–	–	311,480	311,480

There were no transfers between all levels in 2012.

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

	Derivative financial assets	**Derivative financial liabilities**	**Provision for contingent consideration**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At the issuance date	(57,660)	282,904	212,406	437,650
Converted into ordinary shares	37,261	(182,819)	–	(145,558)
Total (gains)/losses:				
– in profit or loss	(10,453)	(2,557)	1,546	(11,464)
At 31 December 2012 and 1 January 2013	(30,852)	97,528	213,952	280,628
Converted into ordinary shares	22,175	(70,099)	–	(47,924)
Derecognition of contingent consideration *(note 29)*	–	–	(49,655)	(49,655)
Total (gains)/losses:				
– in profit or loss	2,838	(9,390)	(19,733)	(26,285)
At 31 December 2013	(5,839)	18,039	144,564	156,764

Of the total gains or losses for the year included in profit or loss, HK$2,838,000 (loss), HK$9,390,000 (gain) and HK$19,733,000 (gain) related to derivative financial assets, derivative financial liabilities and provision for contingent consideration respectively held at the end of the reporting period (2012: HK$10,453,000 (gain), HK$2,557,000 (gain) and HK$1,546,000 (loss) respectively). Fair value gains or losses on derivative financial assets, derivative financial liabilities and provision for contingent consideration are included in "fair value changes on derivative financial assets" and "fair value changes on derivative financial liabilities" and "fair value changes on contingent consideration" on the face of consolidated statement of profit or loss respectively.

7. FINANCIAL INSTRUMENTS *(continued)*

c) FAIR VALUE *(Continued)*

Significant assumptions used in determining fair value of financial liabilities

Provision for contingent consideration

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

a) the Second Convertible Note will be issued on 31 December 2014 based on the best estimation of the management of the Company on the current status of conditions for issuing those convertible notes;

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

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

Derivative financial instruments

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

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

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

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

8. SEGMENT INFORMATION

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

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

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

SEGMENT REVENUES AND RESULTS

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

For the year ended 31 December 2013

	Property leasing HK$'000	**Right to receive royalty fee** HK$'000	**Trading of goods** HK$'000	**Total** HK$'000
Revenue	22,477	9,404	–	31,881
Segment loss	(424,745)	(2,782)	–	(427,527)
Unallocated corporate expenses				(26,807)
Unallocated other revenue				78,900
Share of profits of a joint venture				3,371
Finance costs				(33,792)
Loss before tax				(405,855)

8. SEGMENT INFORMATION *(continued)*

SEGMENT REVENUES AND RESULTS *(Continued)*

For the year ended 31 December 2012

	Property leasing HK$'000	Right to receive royalty fee HK$'000	Trading of goods HK$'000	Total HK$'000
Revenue	19,316	7,366	20	26,702
Segment profit/(loss)	96,843	(3,293)	(737)	92,813
Unallocated corporate expenses				(18,353)
Unallocated other revenue				197
Share of profits of a joint venture				3,507
Finance costs				(42,683)
Profit before tax				35,481

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

SEGMENT ASSETS AND LIABILITIES

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

	2013 HK$'000	2012 HK$'000
Segment assets		
Property leasing	**3,058,409**	3,117,207
Right to receive royalty fee	**42,532**	46,326
Trading of goods	**–**	–
Total segment assets	**3,100,941**	3,163,533
Unallocated corporate assets	**113,528**	113,379
Consolidated assets	**3,214,469**	3,276,912

8. SEGMENT INFORMATION *(continued)*

SEGMENT ASSETS AND LIABILITIES *(Continued)*

	2013 **HK$'000**	2012 HK$'000
Segment liabilities		
Property leasing	**1,310,377**	246,630
Right to receive royalty fee	**115**	19,448
Trading of goods	**–**	–
Total segment liabilities	**1,310,492**	266,078
Unallocated corporate liabilities	**554,051**	1,533,940
Consolidated liabilities	**1,864,543**	1,800,018

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

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

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

8. SEGMENT INFORMATION *(continued)*

OTHER SEGMENT INFORMATION

For the year ended 31 December 2013

	Property leasing HK$'000	Right to receive royalty fee HK$'000	Trading of goods HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Addition to non-current assets *(note)*	202,062	–	–	–	202,062
Depreciation of property, plant and equipment	394	111	–	1,088	1,593
Fair value change on investment properties	407,080	–	–	–	407,080
Amortisation of an intangible asset	–	3,625	–	–	3,625
Impairment loss recognised in respect of trade and other receivables	272	–	–	–	272

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

	Property leasing HK$'000	Right to receive royalty fee HK$'000	Trading of goods HK$'000	Unallocated HK$'000	Total HK$'000
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Interest in a joint venture	–	–	–	47,097	47,097
Interest income	(113)	(9)	–	–	(122)
Share of profits of a joint venture	–	–	–	(3,371)	(3,371)
Fair value change on derivative financial assets	–	–	–	2,838	2,838
Fair value change on derivative financial liabilities	–	–	–	(9,390)	(9,390)
Fair value change on contingent consideration	–	–	–	(19,733)	(19,733)
Derecognition of contingent consideration	–	–	–	(49,655)	(49,655)
Interest expenses	26,538	1,556	–	5,698	33,792
Income tax expenses	(101,769)	–	–	–	(101,769)

8. SEGMENT INFORMATION *(continued)*

OTHER SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2012

	Property leasing HK$'000	Right to receive royalty fee HK$'000	Trading of goods HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Addition to non-current assets *(note)*	87,692	–	43	–	87,735
Depreciation of property, plant and equipment	279	117	202	550	1,148
Amortisation of prepaid lease payments	–	–	69	–	69
Fair value change on investment properties	(92,285)	–	–	–	(92,285)
Amortisation of an intangible asset	–	3,480	–	–	3,480
Impairment loss recognised on property, plant and equipment, prepaid lease payment and others	–	–	8,478	–	8,478
Impairment loss recognised in respect of trade and other receivables	–	–	–	377	377

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

	Property leasing HK$'000	Right to receive royalty fee HK$'000	Trading of goods HK$'000	Unallocated HK$'000	Total HK$'000
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Interest in a joint venture	–	–	–	43,725	43,725
Interest income	(194)	(2)	–	–	(196)
Share of profits of a joint venture	–	–	–	(3,507)	(3,507)
Fair value change on derivative financial assets	–	–	–	(10,453)	(10,453)
Fair value change on derivative financial liabilities	–	–	–	(2,557)	(2,557)
Fair value change on contingent consideration	–	–	–	1,546	1,546
Interest expenses	10,568	–	–	32,115	42,683
Income tax expenses	23,071	–	–	–	23,071

8. SEGMENT INFORMATION *(continued)*

GEOGRAPHICAL INFORMATION

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

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

	Revenue from external customers		**Non-current assets** *(note)*	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**31,881**	26,702	**3,017,064**	3,142,272
Hong Kong	**–**	–	**77,035**	74,726
	31,881	26,702	**3,094,099**	3,216,998

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

INFORMATION ABOUT MAJOR CUSTOMERS

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

	2013	2012
	HK$'000	HK$'000
Customer A[1]	**19,531**	19,122
Customer B[2]	**9,404**	7,366

[1] Revenue from property leasing
[2] Revenue from right to receive royalty fee

9. REVENUE AND OTHER REVENUE

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

	2013 HK$'000	2012 HK$'000
Revenue		
Gross rental income from investment properties *(note a)*	**22,477**	19,316
Royalty income	**9,404**	7,366
Trading of goods	**–**	20
	31,881	26,702
Other Revenue		
Interest income from banks	**122**	196
Write-back of other tax in PRC	**–**	7,852
Sundry income	**38**	13
Government grant *(note b)*	**6,094**	–
	6,254	8,061

Note:

(a) The direct operating expenses of approximately HK$3,032,000 (2012: HK$2,940,000) was incurred from investment property that generated rental income during the year.

(b) The amount of government grant represents the subsidies received from the PRC local district authorities for the business activities carried out by the Group in the district. There are no specific conditions attached to the grant.

10. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interests on:		
– bank borrowings and other interest bearing borrowings wholly repayable within five years	**28,437**	14,204
– bank borrowings and other interest bearing borrowings wholly repayable over five years	**295**	6,478
– effective interest expenses on convertible notes	**5,060**	22,001
Borrowing costs incurred in connection with bank borrowings for investment properties under redevelopment	**36,388**	29,252
Total borrowing costs	**70,180**	71,935
Less: amounts capitalised	**(36,388)**	(29,252)
	33,792	42,683

11. INCOME TAX CREDIT/(EXPENSES)

	2013 HK$'000	2012 HK$'000
Current tax		
PRC Enterprise Income Tax		
– Current year	–	–
	–	–
Deferred tax		
– Current year (note 28)	**101,769**	(23,071)
	101,769	(23,071)

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

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

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$nil (2012: approximately HK$15,408,000) as the Group is able to control the timing of the reversal of the temporary differences and it is possible that the temporary differences will not reverse in the foreseeable future.

The tax charge for the years can be reconciled to the (loss)/profit before tax per the consolidated statement of profit or loss as follows:

	2013 HK$'000	2012 HK$'000
(Loss)/profit before tax	**(405,855)**	35,481
Tax at the domestic tax rate applicable to (loss)/profit in the respective countries	**106,037**	(11,595)
Tax effect of share of profits of a joint venture	**556**	579
Tax effect of expenses not deductible for tax purpose	**(4,676)**	(12,906)
Tax effect of income not taxable for tax purpose	**12,997**	3,599
Tax losses not recognised	**(13,145)**	(2,748)
Tax credit/(expenses) for the year	**101,769**	(23,071)

The Group has tax losses arising in Hong Kong and the PRC of approximately HK$61,210,000 (2012: approximately HK$61,210,000) and approximately HK$129,334,000 (2012: approximately HK$95,066,000) respectively. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The tax losses arising in the PRC are available for offsetting against future five years taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of such unused tax losses due to the unpredictability of future profits streams.

12. (LOSS)/PROFIT FOR THE YEAR

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

	2013 **HK$'000**	2012 HK$'000
Staff costs:		
Directors' emoluments *(note 13)*	**4,099**	3,905
Other staff costs	**13,612**	9,752
Retirement benefit scheme contributions (excluding directors)	**76**	58
Total staff costs	**17,787**	13,715
Amortisation of an intangible asset (included in cost of sales)	**3,625**	3,480
Amortisation of prepaid lease payments	**–**	69
Depreciation for property, plant and equipment	**1,593**	1,148
Total depreciation and amortisation	**5,218**	4,697
Impairment loss recognised on trade and other receivables	**272**	377
Auditors' remuneration	**900**	850
Minimum lease payments under operating lease charges	**765**	444
Impairment loss recognised on property, plant and equipment, prepaid lease payments and others	**–**	8,478
Cost of inventories recognised as an expense	**–**	128

13. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(A) DIRECTORS' EMOLUMENTS

The emolument paid or payable to each of the 6 (2012: 7) directors of the Company were as follows:

For the year ended 31 December 2013

	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Zhang Guodong	–	975	–	975
Liang Wenguan	–	1,950	–	1,950
Liang Huixin*	–	375	–	375
	–	3,300	–	3,300
Non-executive director				
Liang Huixin*	289	–	–	289
Independent non-executive directors				
Dong Ansheng	170	–	–	170
Hung Hing Man	170	–	–	170
Tam Hok Lam, Tommy	170	–	–	170
	510	–	–	510
	799	3,300	–	4,099

* Ms. Liang Huixin was redesignated as executive director with effect from 8 August 2013.

13. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(continued)*

For the year ended 31 December 2012

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors				
Zhang Guodong	–	1,075	–	1,075
Zhong Guoxing (resigned on 27 June 2012)	–	570	–	570
Liang Wenguan (appointed on 15 June 2012)	–	1,230	–	1,230
	–	2,875	–	2,875
Non-executive director				
Liang Huixin	520	–	–	520
Independent non-executive directors				
Dong Ansheng	170	–	–	170
Hung Hing Man	170	–	–	170
Tam Hok Lam, Tommy	170	–	–	170
	510	–	–	510
	1,030	2,875	–	3,905

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

Note 2: None of the directors of the Company waived or agreed to waive any emoluments paid by the Group. No emoluments have been paid by the Group to the directors of the Company as an inducement to join or upon joining the Group during the two years ended 31 December 2013 and 2012 and no compensation for loss of office were paid for both years ended 31 December 2013 and 2012.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, 3 (2012: three) were directors of the Company whose emoluments are included in the disclosure in note 13 above. The emoluments of the remaining 2 (2012: two) individuals are as follows:

	2013 **HK$'000**	2012 HK$'000
Salaries, allowance and other benefits	**1,379**	1,367
Retirement benefit scheme contributions	**30**	29
	1,409	1,396

Their emoluments were within the following band:

	Number of individuals **2013**	2012
Nil to HK$1,000,000	**2**	2

During the year, no emoluments have been paid by the Group to the five highest paid individuals (including directors of the Company and employees) as an inducement to join or upon joining the Group, or as compensation of loss of office for both years ended 31 December 2013 and 2012.

15. DIVIDENDS

No dividend was paid or proposed during 2013, nor has any dividend been proposed since the end of the reporting period (2012: nil).

16. (LOSS)/EARNINGS PER SHARE

(a) BASIC (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share are based on the following data:

	2013 HK$'000	2012 HK$'000
(Loss)/profit for the year attributable to the owners of the Company	(304,086)	16,925

	2013 '000	2012 '000
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	10,844,367	8,307,327
Effect of shares issued upon conversion of convertible notes	951,785	1,706,539
Weighted average number of ordinary shares at 31 December	11,796,152	10,013,866

(b) DILUTED (LOSS)/EARNINGS PER SHARE

The calculation of the diluted (loss)/earnings per share are based on the following data:

	2013 HK$'000	2012 HK$'000
(Loss)/profit for the year attributable to the owners of the Company	(304,086)	16,925
After tax effect of effective interest on the liability component of convertible bonds	(1,492)	16,705
(Loss)/profit for the year attributable to owners of the Company (diluted)	(305,578)	33,630

Weighted average number of ordinary shares (diluted)

	2013 '000	2012 '000
Numbers of shares		
Weighted average number of ordinary shares at 31 December	11,796,152	10,013,866
Effect of the dilutive potential ordinary shares	390,625	1,388,905
Weighted average number of ordinary shares used in the calculation of diluted (loss)/earnings per share	12,186,777	11,402,771

The diluted (loss)/earnings per share for the years ended 31 December 2013 and 31 December 2012 is equivalent to the basic (loss)/earnings per share for both years as the potential shares arising from the conversion of the convertible bonds would increase the earnings/decrease the loss per share of the Group for the year, and is regarded as anti-dilutive.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2012	34,432	771	713	3,995	3,870	43,781
Exchange adjustments	9	–	–	28	59	96
Additions	–	–	–	42	43	85
Acquired on an acquisition of net assets through an acquisition of a subsidiary *(note 31)*	–	–	–	75	–	75
At 31 December 2012 and 1 January 2013	34,441	771	713	4,140	3,972	44,037
Exchange adjustments	34	–	–	90	76	200
Additions	–	–	–	2,096	–	2,096
Disposal	–	–	–	(404)	–	(404)
At 31 December 2013	**34,475**	**771**	**713**	**5,922**	**4,048**	**45,929**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2012	3,319	257	713	2,107	2,040	8,436
Exchange adjustments	13	–	–	33	7	53
Charge for the year	169	154	–	450	375	1,148
Impairment loss	818	–	–	929	441	2,188
At 31 December 2012 and 1 January 2013	4,319	411	713	3,519	2,863	11,825
Exchange adjustments	34	–	–	89	56	179
Charge for the year	891	154	–	425	123	1,593
Written back on disposal	–	–	–	(404)	–	(404)
At 31 December 2013	5,244	565	713	3,629	3,042	13,193
CARRYING VALUES						
At 31 December 2013	**29,231**	**206**	**–**	**2,293**	**1,006**	**32,736**
At 31 December 2012	30,122	360	–	621	1,109	32,212

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

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

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

As at 31 December 2013 and 2012, the Group's leasehold land located in Hong Kong was held under medium-term lease.

Leasehold land and buildings with carrying amount of approximately HK$29,231,000 (2012: HK$30,121,000) has been pledged to a bank to secure the Group's bank borrowings of approximately HK$16,524,000 (2012: HK$34,856,000).

18. INVESTMENT PROPERTIES

	Completed investment properties in the PRC *(note (a))* HK$'000	Investment properties under redevelopment in the PRC *(note (b))* HK$'000	Total HK$'000
FAIR VALUE			
As at 1 January 2012	448,148	2,450,000	2,898,148
Additions	980	86,670	87,650
Exchange adjustments	2,389	18,284	20,673
Net (decrease)/increase in fair value recognised in profit or loss	(2,761)	95,046	92,285
As at 31 December 2012 and 1 January 2013	448,756	2,650,000	3,098,756
Additions	7,033	192,933	199,966
Exchange adjustments	10,903	71,879	82,782
Reclassification of investment properties under redevelopment to completed investment properties	2,914,812	(2,914,812)	–
Decrease in fair value recognised in profit or loss	(407,080)	–	(407,080)
As at 31 December 2013	2,974,424	–	2,974,424

The Group's investment properties as at 31 December 2013 and 2012 were situated in the PRC and were held under medium-term lease. There were 2 investment properties held by the Group, which were located at Harbin ("the Harbin's property") and Chongqing ("the Chongqing's property"). The Harbin's property is classified as completed investment property as at 31 December 2013 and 2012, while the Chongqing's property was classified as investment properties under redevelopment in the PRC as at 31 December 2012 and reclassified as completed investment properties in the PRC during the year ended 31 December 2013 as the Chongqing's property was officially opened on 1 October 2013.

(a) The fair value of the Harbin's property as at 31 December 2013 and 31 December 2012 has been arrived at on the basis of a valuation carried out on that date by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions.

(b) The fair value of the Chongqing's property as at 31 December 2013 had been arrived at on the basis of a valuation carried out by Asset Appraisals Limited, an independent qualified professional valuer not connected with the Group. The Chongqing's property is valued by the discounted cash flow method and where appropriate, the comparison method. Discounted cash flow approach is based on the present worth of future economic benefits expected to be derived from the properties. The value of the Chongqing's property is developed by discounting future debt free cash flows available for distribution to the owners of the property to their present worth at market derived rates of return appropriate for the risks and hazards of holding similar assets. Comparison method is based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

The fair value for the Chongqing's property as at 31 December 2012 had been arrived at on the basis of a valuation carried out by Asset Appraisals Limited, an independent qualified professional valuer not connected with the Group. The property is valued by the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

18. INVESTMENT PROPERTIES *(continued)*

(b) *(continued)*

During 1 January 2004 to 31 December 2006, Kings Mall Management has entered into certain sales and purchase agreements ("SP Agreements") of the Properties to independent third parties (the "Buyers") regarding to certain portion of 1-level basement of the Properties. As the conditions that the investment properties have a fixed boundary in accordance with Measures for Building Registration* 房屋登記辦法 cannot be met, the legal title of the Properties could not be transferred. Starting from 1 January 2009, Kings Mall Management has commenced to negotiate with the Buyers to enter into cancellation agreements in relation to the SP Agreements. As at 31 December 2013, certain Buyers have not yet entered into the cancellation agreements with Kings Mall Management and the fair value of the Properties of such area (the "Problematic Properties") is excluded in the carrying amount of investment properties under redevelopment.

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

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

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

The Company leased out both Properties and Problematic Properties during the year ended 31 December 2013. Thus, they were classified as investment properties to earn rental during the year.

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

As at 31 December 2013, the Group's completed investment properties with carrying amount of approximately HK$2,974,424,000 were pledged to secure the Group's bank borrowings of approximately HK$796,661,000.

As at 31 December 2012, the Group's completed investment property with carrying amount of approximately HK$448,756,000 and a portion of investment properties under redevelopment (basement 2 to 5/F) with carrying amount of approximately HK$2,542,000,000 under redevelopment were pledged to secure the Group's bank borrowings of approximately HK$516,169,000.

* *The English translation is for identification purposes only*

18. INVESTMENT PROPERTIES *(continued)*

(c) *(continued)*

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Carrying value of investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Range of unobservable input(s)	Relationship of unobservable inputs to fair value
At 31 December 2013					
Commercial property in Chongqing HK$2,531,969,000	level-3	Discount cash flow method and where appropriate, the Comparison method	Prevailing market rents	RMB150 – RMB450 /sq.m./month	The higher the prevailing market rent, the higher the fair value
			Rent growth rate (p.a.)	6% p.a.	The higher the rent growth rate, the higher the fair value
			Long term vacancy rate	5% – 30% p.a.	The higher the long term vacancy rate, the lower the fair value
			Capitalization rate	10.21% – 11.33% p.a.	The higher the capitalisation rate, the lower the fair value
Commercial property in Harbin HK$442,455,000	level-3	Comparison method	Capitalization rate	8.83% – 11.33% p.a.	The higher the capitalisation rate, the lower the fair value

19. INTANGIBLE ASSET

	Right to receive royalty fee HK$'000
COST	
At 1 January 2012	54,944
Exchange adjustments	410
At 31 December 2012	55,354
Exchange adjustments	1,557
At 31 December 2013	56,911
AMORTISATION	
At 1 January 2012	9,453
Charge for the year	3,480
Exchange adjustments	116
At 31 December 2012	13,049
Charge for the year	3,625
Exchange adjustments	395
At 31 December 2013	17,069
CARRYING VALUES	
At 31 December 2013	39,842
At 31 December 2012	42,305

The intangible asset of the Group as at 31 December 2013 represented the right to receive royalty fee acquired from Zhuhai City Guo Xiang Investment and Consultancy Limited, an independent third party of the Group, during the year ended 31 December 2009. The Group's right to receive royalty fee last for 16 years and expiring on 31 December 2024, at an annual royalty fee of RMB5,000,000 (approximately HK$6,394,000) to RMB7,800,000 (approximately HK$9,974,000), pursuant to a management agreement.

The consideration for the acquisition of right to receive royalty fee was satisfied by cash of HK$28,000,000 and 320,837,000 newly issued consideration shares of the Company of HK$0.07, being the closing share price of the Company at the completion date of the acquisition. The transaction was completed on 20 April 2009 and the fair value of the intangible asset as at the completion date was considered to be approximately HK$50,459,000. As at 31 December 2013 and 2012, part of the consideration of HK$10,000,000 (note 24) was not yet settled and included in other payables.

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

20. AVAILABLE-FOR-SALE INVESTMENTS

	2013	2012
	HK$'000	HK$'000
Unlisted equity securities	**34,500**	34,500
Less: Impairment loss	**(34,500)**	(34,500)
	–	–

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

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

21. INTEREST IN A JOINT VENTURE

	2013	2012
	HK$'000	HK$'000
Cost of unlisted investment	**35,000**	35,000
Share of post-acquisition profit	**12,097**	8,725
	47,097	43,725

(a) As at 31 December 2013 and 2012, the Group had interest in the following joint venture:

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

(b) On 2 July 2011, Madex Trading Limited ("Madex Trading"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (the "Joint Venture Agreement") with Grand Ocean Investment Company Limited ("Grand Ocean") for the establishment of Madex (Zhuhai).

21. INTEREST IN A JOINT VENTURE *(continued)*

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

(d) A supplemental agreement was signed between Madex Trading and Grand Ocean that Grand Ocean can only start to have its 51% sharing on the financial result and net financial position of Madex (Zhuhai) if the Management Agreement has been commenced. As the Management Agreement has not yet been commenced in 2013 and 2012, 100% of the financial result and net assets of Madex Zhuhai has been shared by the Group for the years ended 31 December 2013 and 2012.

(e) As a condition for the entering into of the Joint Venture Agreement and the Management Agreement, Madex (Zhuhai) entered into a loan agreement for the provision of a loan of HK$35 million to 保利三好 with an interest of 12% per annum and repayable by 5 equal yearly installments starting from the second anniversary of the loan. The loan is guaranteed by Zhu Hai Port Plaza Development Company Limited ("Zhu Hai Port Plaza"), a company indirectly and beneficially owned by Mr. Liang. The loan was fully repaid by 保利三好 to Madex (Zhuhai) during the year ended 31 December 2013.

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

	2013	2012
	HK$'000	HK$'000
Current assets	**49,506**	24,464
Non-current assets	**–**	21,000
Current liabilities	**(2,409)**	(1,739)
Net assets	**47,097**	43,725

100% share of the joint venture's results (note (d)):

	2013	2012
	HK$'000	HK$'000
Other income	**4,043**	4,200
Expenses	**(5)**	(2)
Tax	**(667)**	(691)
Profit after tax	**3,371**	3,507

22. TRADE AND OTHER RECEIVABLES

	2013 HK$'000	2012 HK$'000
Trade receivables	**9,200**	7,083
Less: allowance for doubtful debts	**–**	–
	9,200	7,083
Other receivables	**18,916**	11,367
Prepayment and deposits	**44,992**	3,568
	73,108	22,018

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

AGEING OF TRADE RECEIVABLES

	2013 HK$'000	2012 HK$'000
Within 3 months	**2,398**	1,841
4 to 6 months	**2,398**	1,841
Over 6 months	**4,404**	3,401
Total	**9,200**	7,083

AGEING OF TRADE RECEIVABLES WHICH ARE PAST DUE BUT NOT IMPAIRED

	2013 HK$'000	2012 HK$'000
Neither past due nor impaired	**4,796**	3,682
Less than 3 months past due	**2,398**	1,841
Less than 6 months past due	**2,006**	1,229
Over 6 months past due	**–**	331
	9,200	7,083

22. TRADE AND OTHER RECEIVABLES *(continued)*

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

Trade receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience and the financial standings of these customers, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The average age of these receivables is 166 days (2012: 157 days).

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

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS OF OTHER RECEIVABLES

	2013 **HK$'000**	2012 HK$'000
As at 1 January	**19,914**	19,826
Impairment loss recognised	**272**	377
Written back of impairment	**–**	(289)
As at 31 December	**20,186**	19,914

At the end of the reporting period, the Group's other receivables were individually determined to be impaired. The individually impaired other receivables of approximately HK$20,186,000 (2012: approximately HK$19,914,000) are recognised based on the history of its client, such as financial difficulties or default payments and current market conditions.

23. PLEDGED BANK BALANCES AND BANK BALANCES AND CASH

	2013 HK$'000	2012 HK$'000
Pledged bank balances *(note (a))*	**140**	135
Bank balances and cash *(note (b))*	**41,283**	6,909
	41,423	7,044

Notes:

(a) The pledged bank balances of approximately HK$140,000 (2012: approximately HK$135,000) were pledged to a bank to secure the bank borrowings and facilities granted by a bank to an independent third party respectively. The pledged bank balances carry interest rate of 0.35% (2012: 0.5% to 3.25%) per annum. The pledged bank balances will be released upon the settlement of the relevant bank borrowings. As the pledged bank balances are expected to be released within one year, it was classified as current asset.

(b) At 31 December 2013, the balances that were placed with banks in the PRC amounted to approximately HK$21,779,000 (2012: HK$6,684,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government. Bank balances carry interest at floating rates based on daily bank deposit rates for both years.

24. OTHER PAYABLES

	2013 HK$'000	2012 HK$'000
Construction cost payables, other payables and accrued charges	**120,597**	49,355
Outstanding consideration for acquisition of an intangible asset through acquisition of a subsidiary *(note 19)*	**10,000**	10,000
Refundable deposits received	**108,173**	101,623
Rental received in advance	**42,735**	39,348
Deposit received for disposal of subsidiaries	**101,000**	–
	382,505	200,326

25. BORROWINGS

	2013 HK$'000	2012 HK$'000
Bank loans – secured	**813,185**	551,025
Other loans – unsecured	**7,673**	14,925
Other loans – secured	**8,056**	45,150
Debenture – unsecured	**4,000**	–
	832,914	611,100
The carrying amount is repayable:		
Within one year	**106,522**	130,557
More than one year, but not exceeding two years	**161,125**	62,189
More than two years but not more than five years	**496,150**	325,871
More than five years	**52,593**	74,627
	816,390	593,244
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**16,524**	17,856
	832,914	611,100
Less: amount due within one year shown under current liabilities	**(123,046)**	(148,413)
Amounts shown under non-current liabilities	**709,868**	462,687

All bank borrowings were secured by the leasehold land and buildings and investment properties as detailed in note 30. In additions, bank borrowings amounting to RMB96,000,000 (equivalent to approximately HK$122,762,000) (2012: Nil) were guaranteed by Zhu Hai Port Plaza, a related company of the Company. The remaining bank borrowings amounting to HK$690,423,000 (2012: HK$551,025,000) were guaranteed by Mr. Liang.

During the year ended 31 December 2013, the Group entered into a loan agreement with a bank for secured loan facilities amounting to RMB100,000,000 (equivalent to approximately HK$127,877,000). The loan is interest-bearing at 7.86% per annum which was by reference to the benchmark bank loan interest rate quoted by the People's Bank of China floating upward by 20% and repayable by installments until 21 December 2020.

During the year ended 31 December 2013, the Group entered into a loan agreement with a bank for secured loan facilities amounting to RMB160,000,000 (equivalent to approximately HK$204,603,000). The loan is interest-bearing at 9.6% per annum which was by reference to the benchmark bank loan interest rate quoted by the People's Bank of China floating upward by 50% and repayable by installments until 30 May 2018.

25. BORROWINGS *(continued)*

During the year ended 31 December 2013, the Group entered into loan agreements with several independent third parties for secured loans amounting to RMB79,400,000 (equivalent to approximately HK$101,534,000). All loans are interest-bearing from 1% to 3% per month. As at 31 December 2013, the outstanding balance of such loans were RMB6,300,000 (equivalent to approximately HK$8,056,000).

During the year ended 31 December 2013, the Group entered into loan agreements with several independent third parties for unsecured loans amounting to RMB13,000,000 (equivalent to approximately HK$16,624,000). All loans are interest-bearing at 5% per month. As at 31 December 2013, the outstanding balance of such loans were RMB6,000,000 (equivalent to approximately HK$7,673,000).

During the year ended 31 December 2013, the Group issued a debenture to an independent third party amounted to HK$4,000,000. Such debenture bear interest at 5% per annum, are unsecured and repayable on 21 October 2020.

During the year ended 31 December 2012, the Group entered into a loan agreement with a bank for loan facilities amounting to RMB100,000,000 (equivalent to approximately HK$124,378,000). The loan is interest-bearing at 9.60% per annum which was by reference to the benchmark bank loan interest rate quoted by the People's Bank of China floating upward by 50% and repayable by installments until 18 September 2017.

During the year ended 31 December 2012, the Group fully repaid the bank loan denominated in RMB of approximately RMB70,651,000 (equivalent to approximately HK$87,874,000). The loan is interest-bearing ranging from 5.94% to 8.12% per annum which was by reference to the benchmark bank loan interest rate quoted by the People's Bank of China floating upward by 15%.

During the year ended 31 December 2012, the Group entered into a loan agreement with a financial institution for unsecured loans facilities to the Group amounting to RMB81,000,000 (equivalent to approximately HK$100,746,000) with fixed interest rate of 5% per month. The loan was denominated in RMB and fully repaid during the year ended 31 December 2012.

During the year ended 31 December 2012, the Group entered into loan agreements with independent third parties for secured loans facilities amounting to RMB27,000,000 (equivalent to approximately HK$33,582,000) and RMB9,300,000 (equivalent to approximately HK$11,568,000) The first loan is interest-bearing at 3% per month. The second loan is interest-bearing at 15% per annum.

During the year ended 31 December 2012, the Group entered into loan agreements with several independent third parties for unsecured loans amounting to RMB12,000,000 (equivalent to approximately HK$14,925,000). All loans are interest-bearing at 3% per month.

In prior years, the Group entered into loan agreements with banks for loans facilities. As at 31 December 2013, the carrying amounts of the loans denominated in HKD are approximately HK$nil (2012: HK$17,000,000) and HK$16,524,000 (2012: HK$17,856,000) respectively. The first loan is interest-bearing at 3.25% (2012: 3.25%) per annum over Hong Kong Interbank Offered Rate. The second loan is interest-bearing at 1.5% (2012: 1.5%) per annum over Hong Kong Interbank Offered Rate and is capped at 1.5% per annum below the Hong Kong Dollar Best Lending Rate.

Apart from the bank borrowings of approximately RMB530,989,000 (equivalent to approximately HK$679,014,000) (2012: RMB315,000,000 (equivalent to approximately HK$391,791,000)) which were acquired for construction of investment properties under redevelopment purpose, other borrowings are for working capital purpose for the Group.

26. AMOUNTS DUE TO A RELATED PARTY/A SHAREHOLDER/A JOINT VENTURE

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

27. CONVERTIBLE NOTES AND DERIVATIVE FINANCIAL INSTRUMENT

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

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

As at 31 December 2012 and 31 December 2013, the First Convertible Note were valued by the directors of the Company with reference to valuation report issued by Asset Appraisal Limited, an independent qualified valuer not connected to the Group.

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

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

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

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

	Debt component HK$'000	**Embedded conversion option** HK$'000	**Early redemption option** HK$'000	**Total** HK$'000
Debt component/embedded				
As at 1 January 2012	280,912	282,904	(57,660)	506,156
Interest charge *(note 10)*	22,001	–	–	22,001
Converted into ordinary shares *(note 32)*	(189,370)	(182,819)	37,261	(334,928)
Gain arising on changes of fair value	–	(2,557)	(10,453)	(13,010)
As at 31 December 2012 and 1 January 2013	113,543	97,528	(30,852)	180,219
Interest charge *(note 10)*	5,060	–	–	5,060
Converted into ordinary shares *(note 32)*	(82,111)	(70,099)	22,175	(130,035)
(Gain)/loss arising on changes of fair value	–	(9,390)	2,838	(6,552)
As at 31 December 2013	36,492	18,039	(5,839)	48,692

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

	2013	2012
Share price	**HK$0.128**	HK$0.128
Conversion price	**HK$0.128**	HK$0.128
Expected volatility *(note a)*	**48.32%**	61.9%
Expected life *(note b)*	**2.52 years**	3.52 years
Risk free rate *(note c)*	**0.5030%**	0.197%

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

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

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

28. DEFERRED TAX LIABILITIES

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

	2013 HK$'000	2012 HK$'000
As at 1 January	**467,349**	440,577
(Credited from)/charged to consolidated statement of profit or loss *(note 11)*	**(101,769)**	23,071
Exchange adjustment	**13,624**	3,701
As at 31 December	**379,204**	467,349

The deferred tax assets and liabilities for the year ended 31 December 2013 and 2012 arise from fair value changes on investment properties of the Group.

29. PROVISION FOR CONTINGENT CONSIDERATION

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

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

As at 31 December 2013 and 31 December 2012, the provision for contingent consideration was valued by the directors of the Company with reference to valuation report issued by Asset Appraisal Limited, an independent qualified valuer not connected to the Group.

29. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

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

Second Convertible Note with its full face value of HK$150,350,000 will be issued after completion of the redevelopment mainly for the extension and renovation work in respect of B2/F to 7/F of the shopping mall located in Chongqing in the PRC (the investment properties under redevelopment in note 18) acquired on an acquisition of the Acquired Group, with an additional gross floor area of 10,773.43 square meters as approved by the relevant PRC regulatory authority (the "Extension Work"), full payment of the land premium in respect of the Extension Work and there is no legal impediment for the Acquired Group to obtain all valid real estate ownership certificates under the applicable laws, rules and regulations. On 19 May 2011, the Group, Profit China Investments Development Limited ("Profit China"), a company beneficially wholly-owned by Mr. Liang, and Mr. Liang entered into the Supplemental Agreement, pursuant to which, Profit China and Mr. Liang had agreed and undertaken to pay the excess of the actual land premium ("Land Premium Excess") in respect of the Extension Work over the amount of RMB7,110,463.80 and should Profit China and Mr. Liang fail to pay the Land Premium Excess or any part thereof in accordance with the terms of the Supplemental Agreement, the Group would be entitled to pay the same on their behalf and deduct an amount equivalent to such Land Premium Excess or any part thereof paid by the Group from the part of the consideration to be satisfied by way of issue of the Second Convertible Note.

As mentioned in note 18, during the period from 1 January 2004 to 31 December 2006, the Acquired Group entered SP Agreements to sell the gross floor area of 14,606.48 square meters on the B1/F of the shopping mall located in Chongqing to 1,267 Buyers. Deposits have been received from purchasers in respect of the SP Agreements.

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

As a result, the management of the Acquired Group started to negotiate the cancellation of SP Agreements with those purchasers in 2007. Up to 31 December 2013, 953 purchasers signed the cancellation agreement and the remaining 314 purchasers are still under negotiation with the Acquired Group for the possibility of cancellation of SP Agreements.

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

29. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

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

During the year ended 31 December 2013, the Third Convertible Note was cancelled as Profit China and Mr. Liang cannot comply with the Undertaking before the expiration date. The amount of approximately HK$49,655,000 was derecognised from the amount of contingent consideration and such amount was recognised under the item of "Derecognition of contingent consideration" in the Consolidated Statement of Profit or Loss.

	2013 **HK$'000**	2012 HK$'000
As at 1 January	**213,952**	212,406
Derecognition of contingent consideration	**(49,655)**	–
Arising on changes in fair value	**(19,733)**	1,546
As at 31 December	**144,564**	213,952

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

SECOND CONVERTIBLE NOTE

	2013	2012
Share price	**HK$0.128**	HK$0.128
Conversion price	**HK$0.128**	HK$0.128
Expected volatility *(note a)*	**62.370%**	99.92%
Expected life *(note b)*	**6 years**	5.75 years
Risk free rate *(note c)*	**1.646%**	0.369%

29. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

THIRD CONVERTIBLE NOTE

	2013	2012
Share price	–	HK$0.128
Conversion price	–	HK$0.128
Expected volatility *(note a)*	–	97.8%
Expected life *(note b)*	–	6 years
Risk free rate *(note c)*	–	0.385%

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

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

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

The Second Convertible Note will be issued on 31 December 2014 based on the best estimation of the management of the Company on the current status of conditions for issuing those convertible notes.

30. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group or borrowings of the Group and an independent third party (see note 25):

	2013 **HK$'000**	2012 HK$'000
Leasehold land and buildings *(note 17)*	**29,231**	30,121
Investment properties *(note 18)*	**2,974,424**	2,990,756
Bank balances *(note 23)*	**140**	135
	3,003,795	3,021,012

In addition, the Group has pledged its entire equity interest in its wholly-owned subsidiaries, New China IQ Limited, to secure banking facilities granted to the Group for the year ended 31 December 2013 and 2012.

31. ACQUISITION OF A SUBSIDIARY

Acquisition of a subsidiary in prior year

Pursuant to the Acquisition Agreement dated 15 July 2012, the Group acquired the entire interest in Chongqing Madex Business Management Co., Ltd. from an independent third party of the Group, during the year ended 31 December 2012.

The consideration for the acquisition of subsidiary was satisfied by cash of RMB1.00. The transaction was completed on 15 July 2012.

	Acquirees' carrying amount HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net liabilities acquired:			
Property, plant and equipment	75	–	75
Trade and other receivables	1,531	–	1,531
Cash and bank balances	62	–	62
Other payables	(306)	–	(306)
Amounts due to related parties	(11,142)	–	(11,142)
	(9,780)	–	(9,780)
Goodwill *(note)*			9,780
			–

Note: The goodwill arising on business combination of Chongqing Madex Business Management Co., Ltd. was immediately impaired.

Total consideration was satisfied by :

	HK$'000
Cash consideration	–
Total consideration	–

Net cashflow in respect of the acquisition for the year ended 31 December 2012 is as follow:

	HK$'000
Bank balances and cash acquired	62
Cash consideration paid	–
	62

32. SHARE CAPITAL

	2013 No. of share	2013 Per Share HK$	2013 Amount HK$'000	2012 No. of share	2012 Per Share HK$	2012 Amount HK$'000
Authorised						
Ordinary shares of HK$0.05 each	**60,000,000,000**	**0.05**	**3,000,000**	60,000,000,000	0.05	3,000,000
Issued and fully paid						
At 1 January	**10,844,367,390**	**0.05**	**542,218**	8,307,326,796	0.05	415,366
Issue of new shares *(note)*	**998,280,000**	**0.05**	**49,914**	2,537,040,594	0.05	126,852
At 31 December	**11,842,647,390**	**0.05**	**592,132**	10,844,367,390	0.05	542,218

Note:

As disclosed in note 27, total number of ordinary shares of 998,280,000 (2012: 2,537,040,594) with nominal value of approximately HK$49,914,000 (2012: HK$126,852,000) were issued upon the conversion of the First Convertible Note amounting to approximately HK$130,035,000 (2012: HK$334,928,000) during the year ended 31 December 2013.

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

33. RELATED PARTY TRANSACTIONS

(a) During the years ended 31 December 2013 and 2012, the Group entered into following transactions with its related parties:

(i) As at 31 December 2013, Mr. Liang provided a personal guarantee to the bank for the repayment of the bank loan of HK$690,423,000 (2012: HK$551,025,000).

(ii) Zhu Hai Port Plaza has provided a corporate guarantee during the year ended 31 December 2010 to secure the recoverability of the amount of HK$35 million loaned to 保利三好 from Madex (Zhuhai) which will be expired on 1 July 2017. Such loan was fully repaid to Madex (Zhuhai) during the year ended 31 December 2013.

(iii) During the year ended 31 December 2013, Zhu Hai Port Plaza provided a corporate guarantee to the bank for the repayment of the bank loan of RMB100,000,000 (equivalent to approximately HK$127,877,000). As at 31 December 2013, the outstanding balance of the bank loan was RMB96,000,000 (equivalent to approximately HK$122,762,000).

(b) Compensation of directors of the Company and key management personnel of the Company: Remuneration for key management personnel including amounts paid to the Company's directors as disclosed in note 13 and the highest paid employees as disclosed in note 14 is as follows:

	2013 HK$'000	2012 HK$'000
Salaries and other short-term employee benefits	**5,478**	5,272
Retirement benefit scheme contributions	**30**	29
	5,508	5,301

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

34. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2013, prepayments of HK$46,547,000 was capitalised into the investment properties under redevelopment in the PRC (2012: HK$11,883,000).

On 7 July 2011, the Company completed the acquisition of net assets of the Acquired Group with consideration of HK$1,393,266,000, of which HK$721,709,000 was settled by issuing 4,373,997,292 Consideration Shares of the Company of HK$0.165 each and of HK$451,732,000 by issuing the First Convertible Note. The remaining balance of HK$219,825,000, being the provision for contingent consideration by issuing the Second Convertible Note and the Third Convertible Note, has not yet been settled on the date of acquisition completion and as at 31 December 2012. During the year ended 31 December 2013, the Third Convertible Note was cancelled due to the expiration. The provision for contingent consideration by issuing the Second Convertible Note not yet settled as at 31 December 2013 was HK$144,564,000.

35. COMMITMENTS

a) OPERATING LEASE COMMITMENTS

The Group as lessor

The Group leases its investment properties and has the right to receive royalty fee under operating lease arrangements, with committed tenants and operator for the next one to twenty years (2012: one to fourteen years). The terms of the leases also require the tenants and operator to pay security deposits.

As at 31 December 2013 and 2012, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2013 HK$'000	2012 HK$'000
Within one year	**37,391**	58,691
In the second to fifth year	**140,050**	239,675
Over five years	**494,794**	186,343
	672,235	484,709

The leases of an investment properties and the right to receive royalty fee are expected to generate rental yields of approximately 0.95% to 20.44% (2012: 1.81% to 15.42%) on an ongoing basis.

The Group as lessee

At 31 December 2013 and 2012, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	2013 HK$'000	2012 HK$'000
Within one year	**52**	61

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average of 1 year (2012: 1 to 2 years) and rentals are fixed for average of 1 year (2012: 1 to 2 years).

35. COMMITMENTS *(continued)*

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

	2013 **HK$'000**	2012 HK$'000
Contracted for but not provided in the consolidated financial statements:		
– Acquisition of investment properties under redevelopment	–	25,899

36. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000, contributions to the MPF Scheme vest immediately. Contributions paid or payable to the MPF scheme are charged to the statement of profit or loss.

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

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong and the PRC. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2013 in respect of the retirement of its employees.

The total cost charged to the consolidated statement of profit or loss of approximately HK$76,000 (2012: HK$58,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

37. PRINCIPAL SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 December 2013 and 2012 are as follows:

Name	Place of incorporation / registration and operations	Particular of issued and fully paid capital / registered capital	Proportion ownership interest and voting power held by the Company indirectly		Principal activities
			2013	2012	
Dynamic Global Development Limited ("Dynamic Global")	Hong Kong	HK$4 *(note(i))*	**100%**	100%	Investment holding
Dynamic Progress Development Limited *(note (ii))*	Hong Kong	HK$1	**100%**	100%	Investment holding
New China IQ Limited	Hong Kong	HK$2	**100%**	100%	Investment holding
Seekerland Investments Limited	Hong Kong	HK$2	**100%**	100%	Investment holding
Harbin Dynamic Global Property Co., Ltd *(note (iii))*	PRC	RMB65,000,000	**100%**	100%	Property leasing
珠海市百力行酒店管理有限公司	PRC	RMB1,000,000	**100%**	100%	Operating right leasing
Kings Mall Management	PRC	RMB340,000,000	**100%**	100%	Property development, property trading and leasing of properties

Note:

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

(ii) In September 2013, the Group entered into a sale and purchase agreement to dispose its 100% equity interest in Dynamic Progress Development Limited to an independent third party. The disposal was completed on 28 February 2014. Details are disclosed in note 40.

(iii) Sino-foreign equity joint venture registered in the PRC. Whole equity interest was disposed under the transaction stated in note(ii).

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

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

38. CONTINGENT LIABILITIES

In connection with note 18, during the period from 1 January 2004 to 31 December 2006, certain units and shops of the investment properties located in Chongqing had been sold to the independent third parties under the SP Agreements (the "Sale Transactions"). The leasing agency contracts and the mortgage contracts were signed together with SP Agreements among the Buyers, Kings Mall Management and Jia Jun. Pursuant to the terms of the leasing agency contracts, Jia Jun would pay the Buyers an annual rental income equivalent to ten percent of the purchase price of the properties over twenty years.

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

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

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

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2013 HK$'000	2012 HK$'000
Non-current asset		
Interests in subsidiaries *(Note (a))*	**1,779,135**	1,669,095
Current assets		
Prepayment, deposit and other receivables	**7,210**	35
Derivative financial assets *(Note (c))*	**5,839**	30,852
Bank balances and cash	**7**	8
	13,056	30,895
Current liabilities		
Accruals and other payables	**122,836**	8,917
Amounts due to subsidiaries *(Note (b))*	**115,788**	125,050
Amount due to a joint venture	**49,503**	7,274
Derivative financial liabilities *(Note (c))*	**18,039**	97,528
Bank borrowings	**–**	17,000
	306,166	255,769
Net current liabilities	**(293,110)**	(224,874)
Total assets less current liabilities	**1,486,025**	1,444,221
Capital and reserves		
Share capital	**592,132**	542,218
Reserves *(Note (e))*	**708,837**	574,508
Total equity	**1,300,969**	1,116,726
Non-current liabilities		
Borrowings	**4,000**	–
Convertible notes *(Note (c))*	**36,492**	113,543
Provision for contingent consideration *(Note (d))*	**144,564**	213,952
	185,056	327,495
	1,486,025	1,444,221

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

Notes:

a. INTERESTS IN SUBSIDIARIES

	The Company	
	2013	2012
	HK$'000	HK$'000
Unlisted shares at cost	**611,132**	611,132
Amounts due from subsidiaries	**2,074,208**	1,964,167
	2,685,340	2,575,299
Less: Impairment losses	**(906,205)**	(906,204)
	1,779,135	1,669,095

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

b. AMOUNTS DUE TO SUBSIDIARIES

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

c. CONVERTIBLE NOTES AND DERIVATIVE FINANCIAL INSTRUMENT

Details are set out in note 27.

d. PROVISION FOR CONTINGENT CONSIDERATION

Details are set out in note 29.

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

Notes: (continued)

e. RESERVES

	Share premium HK$'000	Contributed surplus reserve HK$'000 *(note)*	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2012	633,604	115,419	52	(225,892)	523,183
Total comprehensive expense for the year	–	–	–	(156,751)	(156,751)
Converted convertible note into shares	208,076	–	–	–	208,076
At 31 December 2012 and 1 January 2013	841,680	115,419	52	(382,643)	574,508
Total comprehensive income for the year	–	–	–	54,208	54,208
Converted convertible note into shares	80,121	–	–	–	80,121
At 31 December 2013	**921,801**	**115,419**	**52**	**(328,435)**	**708,837**

Note:

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

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

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

40. EVENTS AFTER THE REPORTING PERIOD

The Group entered into a conditional sale and purchase agreement with an independent third party on 17 September 2013 to dispose of the Group's equity interest in Dynamic Progress Development Limited for consideration of RMB150,000,000 and the transaction was completed on 28 February 2014.

FIVE YEAR FINANCIAL SUMMARY

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

	2013 **HK$'000**	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
RESULTS					
Revenue	**31,881**	26,702	27,310	24,814	22,568
(Loss)/profit attributable to owners of the Company	**(304,086)**	16,925	49,824	54,269	(18,357)
ASSETS AND LIABILITIES					
Total assets	**3,214,469**	3,276,912	3,116,706	543,960	466,714
Total liabilities	**(1,864,543)**	(1,800,018)	(1,999,149)	(246,630)	(214,099)
Non-controlling interests	**–**	–	(4,739)	(4,500)	(5,578)
Equity attributable to owners of the Company	**1,349,926**	1,476,894	1,112,818	292,830	247,037

SCHEDULE OF INVESTMENT PROPERTIES

Description	Use	Area	Percentage of attributable interest
North East Corner Central Avenue & Huapu Street Harbin, Helongjiang Province, The People's Republic of China	Commercial	Gross area – approximately 13,923 sq. metre	100
Various portions on level B2 to L7 of Kings Mall No. 8 Nanping North Road, Nanping Jie Dao, Nanan District, Chongqing, The People's Republic of China	Commercial (officially open on 1 October 2013 but still under internal) decoration works)	Gross area – approximately 111,639 sq. metre	100