2012

Annual Report

CHINA TYCOON BEVERAGE HOLDINGS LIMITED

中 國 大 亨 飲 品 控 股 有 限 公 司 *

(Incorporated in Bermuda with limited liability)

Stock Code : 209

* For identification purpose only

Contents

Abbreviations

In this annual report, the following abbreviations have the following meanings unless otherwise specified:

"Board"	the Board of Directors of the Company
"Company"	China Tycoon Beverage Holdings Limited
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, excluding Hong Kong and Macau
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK$" and "HK cents"	Hong Kong dollars and cents
"RMB"	Renminbi
"US$"	United States dollars
"%"	per cent.

BOARD OF DIRECTORS

Non-executive Director

Mr. Sue Ka Lok *(Chairman)*

Executive Directors

Mr. Lo Ming Chi, Charles
(Deputy Chairman and Chief Executive Officer)
Ms. Danita On *(Chief Operating Officer)*
Ms. Chan Yuk Yee
Ms. Wang Jingyu

Independent Non-executive Directors

Mr. Kwok Ming Fai
Mr. Wong Kwok Tai
Ms. Leung Pik Har, Christine

AUDIT COMMITTEE

Mr. Wong Kwok Tai *(Chairman)*
Mr. Kwok Ming Fai
Ms. Leung Pik Har, Christine

REMUNERATION COMMITTEE

Mr. Kwok Ming Fai *(Chairman)*
Mr. Wong Kwok Tai
Ms. Leung Pik Har, Christine
Mr. Lo Ming Chi, Charles

NOMINATION COMMITTEE

Ms. Leung Pik Har, Christine *(Chairman)*
Mr. Kwok Ming Fai
Mr. Wong Kwok Tai
Mr. Lo Ming Chi, Charles

COMPANY SECRETARY

Ms. Chan Yuk Yee

TRADING OF SHARES

The Stock Exchange of Hong Kong Limited
(Stock Code: 209)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1510, 15th Floor
Great Eagle Centre
23 Harbour Road
Wanchai, Hong Kong
(moved to this new address with effect from 5 May 2014)

PRINCIPAL BANKERS

Fubon Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Guangdong Development Bank Zhongshan Branch
Industrial Bank Co., Ltd. Meijiang Branch

AUDITOR

Crowe Horwath (HK) CPA Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

http://www.chinatycoon.com.hk
http://www.tricor.com.hk/webservice/000209

Chairman's Statement

BUSINESS REVIEW

For the year ended 31 December 2012, the Group recorded revenue of HK$453,236,000, representing a decline of 21% from last year (2011: HK$575,377,000), and gross profit of HK$33,540,000, down by 65% when compared with the prior year (2011: HK$96,063,000). The Group's loss for the year was HK$64,100,000, reduced significantly from the previous year (2011: HK$385,509,000) that was primarily due to the absence of impairment losses of goodwill and intangible assets recognised by the Group's beverage division in last year.

Toys Division

The operating environment of the toys division had improved in year 2012. Owing to the exits of several toys manufacturers in the Pearl River Delta Region last year, the division was able to capture new business opportunities from existing and new customers that mainly led to the 12% growth in the division's revenue to HK$441,870,000 (2011: HK$393,844,000). The division's results had also improved by reporting a segment loss of HK$17,656,000, reduced significantly by 40% from last year (2011: HK$29,328,000) that was mainly due to the profit margin contributed by the additional sales made to existing and new customers, the better control in manufacturing costs attributed to the division's elevated production efficiency and the reduction of write down of inventories owing to effective inventory management.

Beverage Division

The performance of the beverage division continued to be unsatisfactory in year 2012 and reported revenue and segment loss of HK$9,566,000 (2011: HK$180,633,000) and HK$33,996,000 (2011: HK$329,023,000) respectively. The division was operating in difficult business environment by the facts that there were intense competitions from other beverage manufacturers, the classic hawthorn fruit tea series continued to be the division's only key sales driver, and substantial selling and distribution expenses were required to support sales activities. In addition, the unexpected departure of senior management members of the division had also hindered the implementation of the division's business restructuring plan in downsizing the operation whilst improving its operating efficiency and maintaining its sales level. During the last quarter of 2012, the management had decided to switch the division's business focus on beverage markets in the third and fourth tier cities from the ones in the first and second tier cities based on the expectations that competitions among beverage products were less severe, selling and distribution costs were lower and profit margin were higher in the third and fourth tier cities' beverage markets. The management anticipated such strategic move would bring positive development to the division's financial performance.

BUSINESS REVIEW (Continued)

Securities Investments

For year 2012, the Group's securities investments operation recorded revenue of HK$1,800,000 (2011: HK$900,000) representing dividend received from listed equity securities investments. As a whole, the division reported segment profit of HK$4,146,000 (2011: segment loss of HK$28,404,000) comprised mainly unrealised gain of HK$13,150,000 recognised for holdings of listed equity securities measured at fair values at year end, realised loss of HK$10,549,000 on disposal of listed securities and dividend income of HK$1,800,000. There were signs that the financial conditions of the European economies were stabilized and the economic recovery of the United States was sustainable, though slow. As such, the investment sentiments of the Hong Kong stock market had improved and that the Group's securities portfolio had recognised an overall profit during the year. The Group's securities portfolio at the year end comprised mainly listed equity securities in mining and resources company, hotel and entertainment company, industrial materials company and financial services company. As at 31 December 2012, the Group's securities portfolio was valued at fair value of HK$151,067,000 (2011: HK$139,727,000).

As a whole, the Group reported a loss attributable to owners of the Company of HK$58,085,000 (2011: HK$359,410,000) and basic loss per share of HK3.44 cents (2011: HK21.51 cents) for the year. The Group reported total comprehensive loss, net of tax, of HK$65,820,000 (2011: HK$357,813,000) including a revaluation surplus on leasehold buildings of HK$1,159,000 (2011: HK$7,343,000) and exchange gain on translation of financial statements of overseas subsidiaries of HK$650,000 (2011: HK$20,806,000). The total comprehensive loss for the year, net of tax, attributable to owners of the Company, amounted to HK$59,788,000 (2011: HK$333,583,000).

PROSPECTS

The loss incurred by the Group was significantly reduced compared to last year that was mainly attributed to the profitable results of the securities investments operation and the improved financial performance of the toys and beverage division. Looking ahead, the management would continue to conduct review and analysis on different aspects of the toys and beverage operations including procurement and inventory control, production and logistics, sales and marketing, product research and development, and human resources management aiming to further improve their operating efficiency and financial performance in the near term.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all our shareholders, investors, bankers, business associates and customers for their continuous support to the Group, and to my fellow directors and all staff members for their hard work during the past year.

Sue Ka Lok
Chairman

Hong Kong, 31 March 2014

OPERATIONS REVIEW

The Group's principal activities are manufacturing and trading of hard and stuffed toys, manufacturing and sales of beverage products and securities investments.

Toys Division

The Group has been in the toys business since its listing in year 2002 and is principally engaged in the manufacturing and sale of a wide range of hard and stuffed toys on an OEM (Original Equipment Manufacturer) basis. The operating environment of the toys division had improved in year 2012. Owing to the exits of several toys manufacturers in the Pearl River Delta Region last year, the division was able to capture new business opportunities from existing and new customers that mainly led to the 12% growth in the division's revenue to HK$441,870,000 (2011: HK$393,844,000). The division's results had also improved by reporting a segment loss of HK$17,656,000, reduced significantly by 40% from last year (2011: HK$29,328,000) that was mainly due to the profit margin contributed by the additional sales made to existing and new customers, the better control in manufacturing costs attributed to the division's elevated production efficiency and the reduction of write down of inventories owing to effective inventory management.

The Group had established a new manufacturing base in Fuzhou, Jiangxi Province in October 2011 with the view to lower the Group's manufacturing costs in the medium to long term as labor costs in Jiangxi Province were relatively lower than that in the Pearl River Delta Region. During the year, the management had successfully relocated some of the production processes conducting in the division's Zhongshan factory to the manufacturing base in Fuzhou which had effectively lowered the division's overall manufacturing costs and contributed to the improved production efficiency of the division.

During the year, the division continued to invest in energy saving equipments and other automations to lower manufacturing costs. There was no increase in minimum wage rate in Zhongshan in year 2012 and that price for resin, a major raw material consumed by the division, was also relatively stable which enabled the division to better control its manufacturing costs. Most of the division's revenues were in United States dollars and Hong Kong dollars and that most of the division's expenditures were in Renminbi, as a result, the division had entered into forward contracts to hedge against appreciation to Renminbi to control manufacturing costs.

The shortage of skilled labor continued to be a major issue for toys manufacturers in the Pearl River Delta Region. During the year, the division continued its policy to give competitive pay and provide adequate work to its workers in order to maintain an adequate and skilled workforce. In addition, the division was successful in lowering its overall direct labor costs by relocating some of its production processes to its newly established manufacturing base in Jiangxi Province. At the year end, the division employed about 3,430 workers and staff (2011: 3,840).

OPERATIONS REVIEW (Continued)

Beverage Division

The performance of the beverage division continued to be unsatisfactory in year 2012 and reported revenue and segment loss of HK$9,566,000 (2011: HK$180,633,000) and HK$33,996,000 (2011: HK$329,023,000) respectively. The division was operating in difficult business environment by the facts that there were intense competitions from other beverage manufacturers, the classic hawthorn fruit tea series continued to be the division's only key sales driver, and substantial selling and distribution expenses were required to support sales activities. In addition, the unexpected departure of senior management members of the division had also hindered the implementation of the division's business restructuring plan in downsizing the operation whilst improving its operating efficiency and maintaining its sales level. In the last quarter of 2012, the management had decided to switch the division's business focus on the beverage markets in the third and fourth tier cities from the ones in the first and second tier cities based on the expectations that competitions among beverage products were less severe, selling and distribution costs were lower and profit margin were higher in the third and fourth tier cities' beverage markets. The division had not advertised on TV channels during the year but took a more direct marketing approach by working closely with distributors in the third and fourth tier cities and getting first hand market information about customers' feedbacks on the division's products. As of 31 December 2012, the division had 9 sales offices, and about 60 distributors and 80 staff compared to 5 sales offices, and about 90 distributors and 95 staff as of 30 June 2012. The division's sales office and distributors at the year end were mostly located in the third and fourth tier cities and management anticipated such strategic move would bring positive development to the division's financial performance.

Securities Investments

During the year, the Group's securities investment operation recorded revenue of HK$1,800,000 (2011: HK$900,000) representing dividend received from listed equity securities investments. As a whole, the division reported segment profit of HK$4,146,000 (2011: segment loss of HK$28,404,000) comprised mainly unrealised gain of HK$13,150,000 recognised for holdings of listed equity securities measured at fair values at year end, realised loss of HK$10,549,000 on disposal of listed securities and dividend income of HK$1,800,000. There were signs that the financial conditions of the European economies were stabilized and the economic recovery of the United States was sustainable, though slow. As such, the investment sentiments of the Hong Kong stock market had improved and that the Group's securities portfolio had recognised an overall profit during the year. The Group's securities portfolio at the year end comprised mainly listed equity securities in mining and resources company, hotel and entertainment company, industrial materials company and financial services company. As at 31 December 2012, the Group's securities portfolio was valued at fair value of HK$151,067,000 (2011: HK$139,727,000).

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At 31 December 2012, the Group had current assets of HK$432,668,000 (2011: HK$506,923,000) comprising cash and cash equivalents of HK$130,246,000 (2011: HK$69,113,000) (excluding pledged bank deposits). The Group's current ratio, calculated as current assets divided by current liabilities of HK$208,107,000 (2011: HK$248,468,000), remained at a healthy ratio of 2.08 (2011: 2.04). The Group's bank loans as at 31 December 2012 were mainly denominated in Hong Kong dollars and United States dollars in the proportion of 87% and 13% (2011: 65% and 35%) respectively. All bank loans totalling HK$88,760,000 (2011: HK$96,033,000) would be matured within one year, out of which 87% bore fixed interest rate (2011: 65%) and the remaining 13% bore floating interest rate (2011: 35%).

The use of derivative financial instruments was strictly monitored and controlled. The majority of the derivative financial instruments entered into by the Group were primarily used for management of the Group's interest rate and currency exposures.

The equity attributable to owners of the Company decreased by 14% to HK$380,026,000 (2011: HK$439,814,000) mainly as a result of the loss incurred by the Group during the current year. The Group financed its operations through a combination of bank financing and shareholder's equity. The Group's gearing ratio was determined as its net debt divided by total equity plus net debt where net debt included interest-bearing bank borrowings, trade payables and other payables less pledged bank deposits and cash and cash equivalents. The Group's policy was to maintain its gearing ratio below 75% to ensure a healthy financial position. The gearing ratio of the Group as at 31 December 2012 was about 16% (2011: 25%).

Despite the loss incurred by the Group, the financial position of the Group remained solid with sufficient cash and undrawn committed credit facilities to support the Group's ongoing business operations.

Foreign Currency Management

The monetary assets and liabilities and business transactions of the Group were mainly carried and conducted in Hong Kong dollars, Renminbi and United States dollars. The Group maintained a prudent position in its foreign currency risk management. To a large extent, foreign exchange risks were minimised by matching the foreign currency monetary assets versus the corresponding currency liabilities, and foreign currency revenues versus the corresponding currency expenditures.

When considered appropriate, the Group would enter into various financial derivative instruments in order to mitigate foreign exchange rate exposure. In light of the above, it was considered that the Group's exposure to foreign exchange risks was not significant.

FINANCIAL REVIEW (Continued)

Charge on Assets

At 31 December 2012, the Group's certain leasehold buildings and prepaid land premium in Mainland China with aggregate carrying amount of HK$103,803,000 (2011: HK$105,755,000), bank deposits, inventories and trade receivables of HK$2,996,000, HK$6,625,000 and HK$13,247,000 (2011: HK$32,847,000, HK$4,321,000 and nil) respectively were pledged to secure general banking facilities granted to the Group.

Contingent Liabilities

At 31 December 2012, the Group had no significant contingent liability (2011: nil).

Capital Commitments

At 31 December 2012, the Group had no material capital commitment (2011: HK$1,416,000).

EMPLOYEES AND REMUNERATION POLICY

For the year ended 31 December 2012, the Group's total staff costs, including directors' remuneration, amounted to HK$170,443,000 (2011: HK$185,836,000). As at 31 December 2012, the Group had a total of approximately 3,530 (2011: 4,310) employees in Hong Kong and Mainland China. The decrease in headcount from last year was mainly due to the downsizing of the Group's beverage division and the reduced number of workers in the Group's toys division. Remuneration packages for employees and directors were structured by reference to market terms, individual performance and experience. Benefits plans maintained by the Group included provident fund scheme, pension scheme, medical insurance, share option scheme and discretionary bonuses. The Group also provided subsidies to staff for external training.

Biographical Details of Directors

NON-EXECUTIVE DIRECTOR

Mr. Sue Ka Lok, *Chairman*

Aged 48, joined the Company as an Executive Director in October 2009 and was re-designated as a Non-executive Director and appointed the Chairman of the Company in November 2009. Mr. Sue is also a director of several subsidiaries of the Company. He holds a Bachelor of Economics degree from the University of Sydney in Australia and a Master of Science in Finance degree from the City University of Hong Kong. Mr. Sue is a fellow member of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the CPA Australia, a fellow member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators and a member of the Hong Kong Securities Institute. He has extensive experience in corporate management, finance, accounting and company secretarial practice. Mr. Sue is an executive director of BEP International Holdings Limited (stock code: 2326); an executive director and the chief executive officer of Poly Capital Holdings Limited ("Poly Capital") (stock code: 1141) and an executive director and the chairman of Sunlink International Holdings Limited ("Sunlink International") (stock code: 2336). All of the above companies are listed in Hong Kong.

EXECUTIVE DIRECTORS

Mr. Lo Ming Chi, Charles, *Deputy Chairman, Chief Executive Officer and member of the Remuneration Committee and the Nomination Committee*

Aged 64, joined the Company as an Executive Director in October 2009 and was appointed the Chief Executive Officer and Deputy Chairman of the Company in November 2009 and June 2011 respectively. Mr. Lo is also a director of several subsidiaries of the Company. He is a certified practising accountant of the CPA Australia and is a fellow member of the Financial Services Institute of Australasia. Mr. Lo has extensive experience in financial and investment services in Australia, Hong Kong and other Asian countries. He is also an executive director and the chief executive officer of New Island Development Holdings Limited ("New Island") (stock code: 377) and an independent non-executive director of Carrianna Group Holdings Company Limited (stock code: 126) and CASH Financial Services Group Limited (stock code: 510). All of the above companies are listed in Hong Kong.

EXECUTIVE DIRECTORS (Continued)

Ms. Danita On, *Chief Operating Officer*

Aged 37, joined the Company as an Executive Director in September 2010 and was appointed the Chief Operating Officer of the Company in June 2011. Ms. On is also a director of several subsidiaries of the Company and the chief operating officer of Loyal Kingdom Holdings Limited ("Loyal Kingdom") and the director of Tycoon Beverage (HK) Company Limited ("Tycoon Beverage"), subsidiaries of the Company. In addition to her role as Executive Director of the Company, Ms. On is responsible for overseeing the daily operations of Loyal Kingdom and Tycoon Beverage and their subsidiaries (collectively referred to as the "Daheng Group") which are principally engaged in beverage business in the PRC. She holds a Bachelor of Business Administration degree with First Class Honours from The Chinese University of Hong Kong and a Master of Science in Finance degree from London Business School. Ms. On is an associate member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants and is a Chartered Financial Analyst. She has extensive experience in corporate management and investment and has held senior positions in international investment groups and international accounting firm in Hong Kong and the PRC.

Ms. Chan Yuk Yee

Aged 45, joined the Company as an Executive Director in October 2009 and was appointed the Company Secretary of the Company in November 2009. Ms. Chan is also a director of several subsidiaries of the Company. She holds a Master of Business Law degree from Monash University in Australia and is an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Chan has over 10 years of experience in corporate administration and company secretarial practice. She is also an executive director of New Island and the company secretary of both Poly Capital and Sunlink International. All of the above companies are listed in Hong Kong.

Ms. Wang Jingyu

Aged 33, joined the Company as an Executive Director in November 2009. Ms. Wang graduated from Southwestern University of Finance and Economics in the PRC with a bachelor's degree in economics, specialised in international finance. She has over 10 years of experience in financial management and investments in the PRC. Ms. Wang is a niece of Mr. Suen Cho Hung, Paul, the controlling shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwok Ming Fai, *Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee*

Aged 49, joined the Company as an Independent Non-executive Director in October 2009. Mr. Kwok has extensive experience in banking, finance and accounting and held executive positions at several international financial institutions, accounting firm and listed companies. He obtained his bachelor degree in accounting & economics from the University of Sheffield in the United Kingdom and a master degree in business administration from the University of Adelaide in Australia. Mr. Kwok is a certified practising accountant of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. He is an executive director of Zhongda International Holdings Limited (stock code: 909) and an independent non-executive director of Incutech Investments Limited (stock code: 356). All of the above companies are listed in Hong Kong.

Mr. Wong Kwok Tai, *Chairman of the Audit Committee and member of the Remuneration Committee and the Nomination Committee*

Aged 75, joined the Company as an Independent Non-executive Director in November 2009. Mr. Wong graduated from the Deakin University in Geelong, Australia and holds a Diploma of Commerce. He is a Practising Certified Public Accountant and a fellow member of the CPA Australia and the Hong Kong Institute of Certified Public Accountants. He is the director of W. Wong CPA Limited and has more than 45 years of financial experience. Currently, Mr. Wong is also an independent non-executive director of China Power New Energy Development Company Limited (stock code: 735), Poly Capital and Takson Holdings Limited (stock code: 918). All of the above companies are listed in Hong Kong.

Ms. Leung Pik Har, Christine, *Chairman of the Nomination Committee and member of the Audit Committee and the Remuneration Committee*

Aged 44, joined the Company as an Independent Non-executive Director in November 2009. Ms. Leung graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration. She has over 20 years of experience in banking and financial services industries and held executive positions at several international financial institutions including Citibank, Bank of America, Industrial and Commercial Bank of China (Asia) Limited and Fubon Bank (Hong Kong) Limited.

The Directors hereby present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are manufacturing and trading of hard and stuffed toys, manufacturing and sales of beverage products and securities investments.

RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 29.

FINAL DIVIDEND

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Company, is set out on page 122. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

There was no movement in the share capital of the Company during the year, details of share capital of the Company are set out in note 33 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

RESERVES

Details of movements in reserves of the Company and of the Group during the year are set out in note 35 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for approximately 89% of the total sales for the year and sales to the largest customer accounted for approximately 59%. Purchases from the Group's five largest suppliers accounted for approximately 36% of the total purchases for the year and purchases from the largest supplier accounted for approximately 9%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS

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

Non-executive Director:

Mr. Sue Ka Lok

Executive Directors:

Mr. Lo Ming Chi, Charles
Ms. Danita On
Ms. Chan Yuk Yee
Ms. Wang Jingyu

Independent Non-executive Directors:

Mr. Kwok Ming Fai
Mr. Wong Kwok Tai
Ms. Leung Pik Har, Christine

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the directors' and chief executive's remuneration are set out in note 10 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

As at 31 December 2012, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or 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 by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "Share Option Scheme" disclosure in note 34 to the consolidated financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors of the Company or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 34 to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2012, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital
Mr. Suen Cho Hung, Paul ("Mr. Suen")	Interest of controlled corporation	615,791,472 *(Note 1)*	36.51%
Smart Legend Holdings Limited ("Smart Legend")	Interest of controlled corporation	615,791,472 *(Note 1)*	36.51%
Right Perfect Limited ("Right Perfect")	Beneficial owner	615,791,472 *(Note 1)*	36.51%
Edmond de Rothschild Asset Management	Investment manager	134,000,000 *(Note 2)*	7.95%
HEC Capital Limited ("HEC Capital")	Interest of controlled corporation	89,084,000 *(Note 3)*	5.28%

Notes:

1. These shares were held by Right Perfect, which was a wholly-owned subsidiary of Smart Legend which in turn was wholly owned by Mr. Suen. Mr. Suen was the sole director of Right Perfect and Smart Legend. Accordingly, Mr. Suen and Smart Legend were deemed to be interested in 615,791,472 shares of the Company under the SFO.

2. These shares were held by Edmond de Rothschild Asset Management Hong Kong Limited which was wholly owned by Edmond de Rothschild Asset Management. Accordingly, Edmond de Rothschild Asset Management was deemed to be interested in 134,000,000 shares of the Company under the SFO.

3. These shares were held by Murtsa Capital Management Limited, which was a wholly-owned subsidiary of Hennabun Development Limited which in turn was wholly owned by HEC Capital. Accordingly, HEC Capital was deemed to be interested in 89,084,000 shares of the Company under the SFO.

Save as disclosed above, the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2012 as required pursuant to section 336 of the SFO.

RELATED PARTY TRANSACTIONS

The related party transactions as disclosed in note 40 to the consolidated financial statements fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" under Chapter 14A of the Listing Rules but are exempted from reporting, annual review, announcement or independent shareholders' approval requirements.

REMUNERATION POLICY

The Group remunerates its employees based on their competence, performance, experience and prevailing market terms. Other employee benefits included provident fund scheme, medical insurance, subsidised training programme as well as discretionary bonuses.

The remuneration of directors of the Company are reviewed and determined by the Remuneration Committee of the Company having regard to the Company's operating results, individual performance and comparable market information. None of the directors of the Company or any of his/her associates is involved in dealing with his/her own remuneration.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available and within the knowledge of the directors of the Company, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2012 have been reviewed by the Audit Committee of the Company before they are duly approved by the Board under the recommendation of the Audit Committee.

AUDITOR

Messrs. Ernst & Young resigned as auditors of the Company with effect from 16 December 2010 and BDO Limited ("BDO") was appointed as auditor of the Company with effect from 16 December 2010 to fill the casual vacancy so arising.

BDO resigned as auditor of the Company with effect from 26 February 2013 and Crowe Horwath (HK) CPA Limited ("Crowe Horwath") has been appointed as auditor of the Company with effect from 11 April 2013 to fill the casual vacancy so arising and to hold office until the conclusion of the forthcoming annual general meeting. A resolution will be proposed at the forthcoming annual general meeting to re-appoint Crowe Horwath as auditor of the Company.

Save for the above, there were no other changes of auditor of the Company in the past three years.

The consolidated financial statements of the Company for the year ended 31 December 2012 have been audited by Crowe Horwath.

On behalf of the Board

Lo Ming Chi, Charles
Deputy Chairman and Chief Executive Officer

Hong Kong, 31 March 2014

Corporate Governance Report

The Board is committed to maintaining high standards of corporate governance practices at all times. The Board believes that good corporate governance helps the Company to safeguard the interests of its shareholders and to enhance the performance of the Group.

CORPORATE GOVERNANCE

During the year ended 31 December 2012, the Company had complied with all the applicable code provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) (the "Former CG Code") and the Corporate Governance Code (effective from 1 April 2012) (the "New CG Code") as set out in Appendix 14 of the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific enquiries have been made with the Directors and they have confirmed their compliance with the Own Code and the Model Code during the year ended 31 December 2012.

BOARD OF DIRECTORS

The overall management and control of the Group's business are vested in the Board. The Board is responsible for establishing policies, strategies and plans, providing leadership in creating value and overseeing the Group's financial performance on behalf of shareholders of the Company.

The Board reserves for its decision on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

BOARD OF DIRECTORS (Continued)

The day-to-day management, administration and operations of the Group are delegated to the executive directors and senior management of the Company. Prior to entering into any significant transactions, the executive directors and senior management of the Company have to obtain Board approval.

As at the date of this annual report, the Board comprises eight directors, including one Non-executive Director, namely Mr. Sue Ka Lok ("Mr. Sue") (Chairman); four Executive Directors, namely Mr. Lo Ming Chi, Charles ("Mr. Lo") (Deputy Chairman and Chief Executive Officer), Ms. Danita On (Chief Operating Officer), Ms. Chan Yuk Yee ("Ms. Chan") and Ms. Wang Jingyu; and three Independent Non-executive Directors, namely Mr. Kwok Ming Fai, Mr. Wong Kwok Tai ("Mr. Wong") and Ms. Leung Pik Har, Christine. The Company has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the Directors are set out under the section headed "Biographical Details of Directors" on pages 10 to 12 of this annual report. As disclosed in that section, Mr. Sue is an executive director and Mr. Wong is an independent non-executive director of Poly Capital Holdings Limited ("Poly Capital"). Both Mr. Lo and Ms. Chan are executive directors of New Island Development Holdings Limited. Ms. Chan is also the company secretary of Poly Capital and Sunlink International Holdings Limited and Mr. Sue is an executive director of both companies.

The Company will provide a comprehensive, formal and tailored induction to each newly appointed director on his/her first appointment in order to enable him/her to have appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the directors. Continuing briefing and professional development for directors are arranged where necessary.

BOARD OF DIRECTORS (Continued)

During the year ended 31 December 2012, four regular Board meetings were held and the attendance of each director is set out as follows:

Name of director	Number of attendance
Non-executive Director	
Mr. Sue Ka Lok	4/4
Executive Directors	
Mr. Lo Ming Chi, Charles	4/4
Ms. Danita On	4/4
Ms. Chan Yuk Yee	4/4
Ms. Wang Jingyu	4/4
Independent Non-executive Directors	
Mr. Kwok Ming Fai	4/4
Mr. Wong Kwok Tai	4/4
Ms. Leung Pik Har, Christine	4/4

During the year ended 31 December 2012, no general meeting of the Company was held.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There are two key aspects of the management of the Company – the management of the Board and the day-to-day management of the Group's business. The Company supports that there should be a clear division of these responsibilities at the Board level to ensure a balance of power and authority, so that power is not concentrated in any one individual. Currently, Mr. Sue Ka Lok, the Chairman of the Board, takes up the responsibility of the management of the Board whereas Mr. Lo Ming Chi, Charles, the Chief Executive Officer of the Company, is responsible for the day-to-day management of the Group's business.

NON-EXECUTIVE DIRECTORS

Each of the Non-executive Director and Independent Non-executive Directors is appointed for a term of twelve-month period which automatically renews for successive twelve-month periods unless terminated by either party in writing prior to the expiry of the term. The Non-executive Director and all the Independent Non-executive Directors are also subject to retirement by rotation and re-election at least once every three years at the annual general meetings of the Company in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

The Remuneration Committee has specific written terms of reference as set out in the New CG Code. As at the date of this annual report, the Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Kwok Ming Fai, Mr. Wong Kwok Tai and Ms. Leung Pik Har, Christine and one Executive Director, namely Mr. Lo Ming Chi, Charles. Mr. Kwok Ming Fai is the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure and the remuneration packages of directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The full terms of reference of the Remuneration Committee are available on the Company's website and the Stock Exchange's website.

The Remuneration Committee met once during the year ended 31 December 2012 to review the remuneration packages for directors. The attendance of each member is set out as follows:

Name of member		Number of attendance
Mr. Kwok Ming Fai	(appointed as chairman on 30 March 2012)	1/1
Mr. Wong Kwok Tai		1/1
Ms. Leung Pik Har, Christine		1/1
Mr. Lo Ming Chi, Charles	(ceased to act as chairman on 30 March 2012)	1/1

NOMINATION COMMITTEE

The Nomination Committee has specific written terms of reference as set out in the New CG Code. As at the date of this annual report, the Nomination Committee comprises three Independent Non-executive Directors, namely Ms. Leung Pik Har, Christine, Mr. Wong Kwok Tai and Mr. Kwok Ming Fai and one Executive Director, namely Mr. Lo Ming Chi, Charles. Ms. Leung Pik Har, Christine is the Chairman of the Nomination Committee.

The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of directors, evaluation of board composition, assessment of the independence of independent non-executive directors and the management of the Board succession. The full terms of reference of the Nomination Committee are available on Company's website and the Stock Exchange's website.

NOMINATION COMMITTEE (Continued)

The Nomination Committee met once during the year ended 31 December 2012 to review the structure, size and composition of the Board. The attendance of each member is set out as follows:

Name of member	Number of attendance
Ms. Leung Pik Har, Christine	1/1
Mr. Kwok Ming Fai	1/1
Mr. Wong Kwok Tai	1/1
Mr. Lo Ming Chi, Charles	1/1

AUDIT COMMITTEE

The Audit Committee has specific written terms of reference as set out in the New CG Code. As at the date of this annual report, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. Wong Kwok Tai, Mr. Kwok Ming Fai and Ms. Leung Pik Har, Christine. Mr. Wong Kwok Tai is the Chairman of the Audit Committee.

The main duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditor before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditor and making the relevant recommendation to the Board; and reviewing the Group's financial reporting system, internal control system and risk management system. The Audit Committee is also delegated the corporate governance function of the Board to monitor, procure and manage corporate governance compliance within the Group. The full terms of reference of the Audit Committee are available on Company's website and the Stock Exchange's website.

The Audit Committee met four times during the year ended 31 December 2012 and the attendance of each member is set out as follows:

Name of member	Number of attendance
Mr. Wong Kwok Tai	4/4
Mr. Kwok Ming Fai	4/4
Ms. Leung Pik Har, Christine	4/4

AUDIT COMMITTEE (Continued)

The following is a summary of work performed by the Audit Committee during the year ended 31 December 2012:

1. reviewed and approved the remuneration and terms of engagement of the Company's auditor.

2. reviewed and discussed the Group's management accounts; and

3. reviewed and discussed the appointment of independent professionals to conduct an internal control review of the Group's internal control system and approved the remuneration and terms of such appointment.

AUDITOR AND AUDITOR'S REMUNERATION

The consolidated financial statements of the Company for the year ended 31 December 2012 have been audited by Crowe Horwath (HK) CPA Limited ("Crowe Horwath"). The statement of the external auditor of the Company about its reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2012 is set out in the section headed "Independent Auditor's Report" on pages 27 to 28 of this annual report.

During the year ended 31 December 2012, the following fees were paid or payable to (i) Crowe Horwath, the auditor of the Company; and (ii) BDO Limited ("BDO"), the former auditor of the Company:

	HK$'000
Fee for audit services *(note a)*	900
Fee for non-audit services *(note b)*	838
Fee for non-audit services *(note c)*	531
Total	2,269

Notes:

(a) The audit services provided by Crowe Horwath.

(b) The non-audit services provided by Crowe Horwath.

(c) The non-audit services provided by BDO.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2012.

CORPORATE GOVERNANCE FUNCTIONS

In light of the amendments of the Listing Rules which became effective on 1 April 2012 and in order to establish the duties and responsibilities of the Board in performing its corporate governance functions, the Board has delegated certain corporate governance functions to the Audit Committee which include the following:

(a) developing and reviewing policies and practices on corporate governance;

(b) reviewing and monitoring the training and continuous professional development of directors and senior management;

(c) reviewing and monitoring the policies and practices on compliance with legal and regulatory requirements;

(d) developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and directors; and

(e) reviewing the Company's compliance with the New CG Code and disclosure in the Corporate Governance Report.

INTERNAL CONTROL

The Board recognises its responsibilities for maintaining an adequate system of internal control to safeguard the Group's assets and shareholders' interests. An internal control system, including a defined management structure with limits of authority, is designed to help achieving business objectives, safeguarding assets against unauthorised use, and maintaining proper accounting records for the provision of reliable financial information for internal use and for publication. The internal control system is set up to provide reasonable, but not absolute, assurance against material misstatement of financial statements or loss of assets and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

For the year ended 31 December 2012, the Board conducted a review of the effectiveness of the internal control system of the Group.

INTERNAL CONTROL (Continued)

The Group has a positive attitude to internal controls improvements. For the purpose of strengthening its existing internal control system, the Company has appointed RSM Nelson Wheeler Consulting Limited ("RSM") to perform a review on the Group's internal control system based on the internal control framework as recommended by the Committee of Sponsoring Organizations of the Treadway Commission. The internal control review report (the "IC Review Report") has been issued by RSM in February 2014 after being reviewed by the Audit Committee and the management of the Company. RSM confirmed that the Group has adopted all the RSM's recommendations in the IC Review Report in further enhancement of the Group's internal control system and that no material internal control deficiency has been identified in the IC Review Report.

COMPANY SECRETARY

Ms. Chan Yuk Yee ("Ms. Chan"), has been appointed the Company Secretary of the Company in November 2009 and she is also an Executive Director of the Company since October 2009. The biographical details of Ms. Chan are set out under the section headed "Biographical Details of Directors" on pages 10 to 12 of this annual report. Ms. Chan has taken no less than 15 hours of the relevant professional training during the financial year ended 31 December 2012.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene a special general meeting

According to bye-law 58 of the Company's Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda (the "Companies Act").

Procedures for shareholders to put forward proposals at general meetings

Pursuant to the Companies Act, any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or not less than one hundred shareholders, can request the Company in writing to:

(a) give to shareholders of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting;

SHAREHOLDERS' RIGHTS (Continued)

Procedures for shareholders to put forward proposals at general meetings (Continued)

(b) circulate to shareholders of the Company entitled to have notice of any general meeting send to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition must be deposited to the Company not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in case of any other requisition.

Procedures for shareholders to propose a person for election as a director of the Company

According to bye-law 88 of the Company's Bye-laws, no person other than a director retiring at the general meeting of the Company shall, unless recommended by the Board for election, be eligible for election to the office of director at any general meeting of the Company unless a notice in writing of the intention to propose such person for election as a director, signed by a shareholder of the Company (other than the person to be proposed for election as a director) duly qualified to attend and vote at the general meeting of the Company for which such notice is given, and a notice in writing signed by such person of his/her willingness to be elected shall have been lodged at the Company's head office in Hong Kong or at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and the period for lodgement of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns in writing to the Company Secretary of the Company at the Company's head office in Hong Kong at Suite 1510, 15th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong (moved to this new address with effect from 5 May 2014).

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at www.chinatycoon.com.hk and www.tricor.com.hk/webservice/000209.

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA TYCOON BEVERAGE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Tycoon Beverage Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 29 to 121, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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 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 qualified audit opinion.

Basis for qualified opinion

Limitation of scope on prior year's scope limitation affecting corresponding figures

The consolidated financial statements of the Group for the year ended 31 December 2011 included sales of goods amounting to HK$56,649,000 to customers of the beverage business which are now either deregistered or the Group has already ceased to conduct business with. As mentioned in our report dated 31 March 2014 on the Group's consolidated financial statements for the year ended 31 December 2011, following the resignation of certain personnel of the beverage operation, the management were unable to locate or provide certain relevant information and supporting documents for these sale transactions. As a result, we were unable to obtain sufficient appropriate audit evidence or to carry out alternative audit procedures that we considered necessary to verify the occurrence, completeness and accuracy of these sales amounts for the year ended 31 December 2011. Our audit opinion on the consolidated financial statements for the year ended 31 December 2011 was modified accordingly. Our opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures.

Qualified opinion

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's 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.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2014

Alvin Yeung Sik Hung
Practising Certificate Number P05206

	Notes	2012 HK$'000	2011 HK$'000
Revenue	7	**453,236**	575,377
Cost of sales		**(419,696)**	(479,314)
Gross profit		**33,540**	96,063
Other revenue and other net income	7	**5,156**	8,660
Selling and distribution costs		**(21,224)**	(62,683)
Administrative expenses		**(73,322)**	(80,069)
Impairment loss of goodwill	21	**–**	(163,208)
Impairment loss of intangible assets	20	**–**	(88,341)
Net gain/(loss) on trading securities at fair value through profit or loss	8	**2,601**	(28,604)
Other operating expenses		**(2,854)**	(75,417)
Loss from operations		**(56,103)**	(393,599)
Finance costs	9	**(5,825)**	(4,615)
Loss before taxation	8	**(61,928)**	(398,214)
Income tax	12	**(2,172)**	12,705
Loss for the year		**(64,100)**	(385,509)
Attributable to:			
Owners of the Company		**(58,085)**	(359,410)
Non-controlling interests		**(6,015)**	(26,099)
Loss for the year		**(64,100)**	(385,509)
Loss per share			
Basic	14	**(HK3.44 cents)**	(HK21.51 cents)
Diluted	14	**(HK3.44 cents)**	(HK21.51 cents)

The notes on pages 38 to 121 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Loss for the year		**(64,100)**	(385,509)
Other comprehensive (loss)/income for the year			
Revaluation surplus on leasehold buildings	15	**1,159**	7,343
Deferred tax charge arising from revaluation surplus on leasehold buildings	32	**(3,529)**	(453)
		(2,370)	6,890
Exchange differences on translation of financial statements of overseas subsidiaries		**650**	20,806
Other comprehensive (loss)/income for the year, net of tax		**(1,720)**	27,696
Total comprehensive loss for the year, net of tax		**(65,820)**	(357,813)
Attributable to:			
Owners of the Company		**(59,788)**	(333,583)
Non-controlling interests		**(6,032)**	(24,230)
		(65,820)	(357,813)

The notes on pages 38 to 121 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	15	**140,180**	142,750
Deposits for acquisition of property, plant and equipment	16	**–**	25,904
Prepaid land premiums	17	**4,851**	5,003
Intangible assets	20	**2,626**	2,750
Goodwill	21	**834**	834
Interests in associates	19	**–**	–
		148,491	177,241
Current assets			
Trading securities	27	**151,067**	139,727
Inventories	23	**100,938**	104,744
Prepaid land premiums	17	**152**	152
Trade receivables	24	**30,644**	92,167
Prepayments, deposits and other receivables	25	**16,625**	57,268
Loan receivable	22	**–**	10,062
Derivative financial instruments	26	**–**	843
Pledged bank deposits	28	**2,996**	32,847
Cash and cash equivalents	28	**130,246**	69,113
		432,668	506,923
Current liabilities			
Trade payables	29	**43,493**	52,840
Other payables	30	**70,824**	93,611
Derivative financial instruments	26	**–**	1,318
Interest-bearing bank borrowings	31	**88,760**	96,033
Tax payable		**5,030**	4,666
		208,107	248,468
Net current assets		**224,561**	258,455
Total assets less current liabilities		**373,052**	435,696
Non-current liabilities			
Deferred tax liabilities	32	**7,004**	3,828
		7,004	3,828
Net assets		**366,048**	431,868

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Equity			
Equity attributable to owners of the Company			
Share capital	33	**168,641**	168,641
Reserves	35(a)	**211,385**	271,173
		380,026	439,814
Non-controlling interests		**(13,978)**	(7,946)
Total equity		**366,048**	431,868

Approved and authorised for issue by the Board of Directors on 31 March 2014.

On behalf of the Board

Sue Ka Lok
Director

Lo Ming Chi, Charles
Director

The notes on pages 38 to 121 form part of these consolidated financial statements.

	Notes	2012 HK$'000	2011 HK$'000
Non-current asset			
Interests in subsidiaries	18	**285,167**	317,887
Current assets			
Prepayments, deposits and other receivables	25	**370**	470
Cash and cash equivalents	28	**13,768**	10,865
		14,138	11,335
Current liability			
Other payables	30	**4,268**	2,468
		4,268	2,468
Net current assets		**9,870**	8,867
Net assets		**295,037**	326,754
Equity			
Equity attributable to owners of the Company			
Share capital	33	**168,641**	168,641
Reserves	35(b)	**126,396**	158,113
Total equity		**295,037**	326,754

Approved and authorised for issue by the Board of Directors on 31 March 2014.

On behalf of the Board

Sue Ka Lok
Director

Lo Ming Chi, Charles
Director

The notes on pages 38 to 121 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Issued share capital *HK$'000*	Share premium* *HK$'000*	Asset revaluation reserve* *HK$'000*	Statutory reserve fund* *HK$'000*	Exchange fluctuation reserve* *HK$'000*	Retained profits/ (accumulated losses)* *HK$'000*	Equity attributable to the owners of the Company *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2011	153,641	542,803	42,959	8,168	34,217	(165,091)	616,697	16,284	632,981
Change in equity for 2011:									
Loss for the year	–	–	–	–	–	(359,410)	(359,410)	(26,099)	(385,509)
Other comprehensive income									
Revaluation surplus on leasehold buildings	–	–	7,343	–	–	–	7,343	–	7,343
Deferred tax charge arising from revaluation surplus on leasehold buildings	–	–	(453)	–	–	–	(453)	–	(453)
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	18,937	–	18,937	1,869	20,806
Total other comprehensive income	–	–	6,890	–	18,937	–	25,827	1,869	27,696
Total comprehensive income/(loss) for the year	–	–	6,890	–	18,937	(359,410)	(333,583)	(24,230)	(357,813)
Issue of shares *(notes 33 & 35(b))*	15,000	142,500	–	–	–	–	157,500	–	157,500
Share issue expense *(note 35(b))*	–	(800)	–	–	–	–	(800)	–	(800)
Transactions with owners	15,000	141,700	–	–	–	–	156,700	–	156,700
Revaluation reserve realised	–	–	(5,017)	–	–	5,017	–	–	–
Appropriation to statutory reserve fund	–	–	–	2,165	–	(2,165)	–	–	–
At 31 December 2011	168,641	684,503	44,832	10,333	53,154	(521,649)	439,814	(7,946)	431,868

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Issued share capital HK$'000	Share premium* HK$'000	Asset revaluation reserve* HK$'000	Statutory reserve fund* HK$'000	Exchange fluctuation reserve* HK$'000	Retained profits/ (accumulated losses)* HK$'000	Equity attributable to the owners of the Company HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012	168,641	684,503	44,832	10,333	53,154	(521,649)	439,814	(7,946)	431,868
Change in equity for 2012:									
Loss for the year	-	-	-	-	-	(58,085)	(58,085)	(6,015)	(64,100)
Other comprehensive (loss)/income									
Revaluation surplus on leasehold buildings	-	-	1,159	-	-	-	1,159	-	1,159
Deferred tax charge arising from revaluation surplus on leasehold buildings	-	-	(3,529)	-	-	-	(3,529)	-	(3,529)
Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	667	-	667	(17)	650
Total other comprehensive (loss)/income	-	-	(2,370)	-	667	-	(1,703)	(17)	(1,720)
Total comprehensive (loss)/income for the year	-	-	(2,370)	-	667	(58,085)	(59,788)	(6,032)	(65,820)
Revaluation reserve realised	-	-	(1,319)	-	-	1,319	-	-	-
Appropriation to statutory reserve fund	-	-	-	353	-	(353)	-	-	-
At 31 December 2012	168,641	684,503	41,143	10,686	53,821	(578,768)	380,026	(13,978)	366,048

* These reserve accounts comprise the consolidated reserves of approximately HK$211,385,000 (2011: HK$271,173,000) in the consolidated statement of financial position as at 31 December 2012.

The notes on pages 38 to 121 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Operating activities			
Loss before taxation		**(61,928)**	(398,214)
Adjustments for:			
Finance costs	9	**5,825**	4,615
Interest income	7	**(570)**	(2,863)
Dividend income	7	**(1,800)**	(900)
Amortisation of intangible assets	20	**123**	5,072
Amortisation of prepaid land premiums	17	**152**	152
Depreciation	15	**11,775**	16,200
Fair value loss on derivative financial instruments – transactions not qualifying as hedges	7	**–**	564
Unrealised (gain)/loss on trading securities at fair value through profit or loss	8	**(13,150)**	28,604
Gain on disposal of non-current assets held for sale	7	**–**	(700)
Loss on disposal of property, plant and equipment	8	**453**	88
Impairment loss of goodwill	21	**–**	163,208
Impairment loss of intangible assets	20	**–**	88,341
Impairment loss of property, plant and equipment	15	**–**	44,802
Impairment loss of trade receivables	24(b)	**1,792**	1,982
Write down of inventories, net	23	**9,292**	40,434
Foreign exchange gain		**191**	6,545
Operating loss before changes in working capital		**(47,845)**	(2,070)
Decrease/(increase) in loan receivable		**10,062**	(9,785)
Increase in inventories		**(5,486)**	(60,663)
Decrease/(increase) in trade receivables		**59,731**	(7,413)
Decrease/(increase) in prepayments, deposits and other receivables		**40,643**	(42,225)
Decrease in trade payables		**(9,347)**	(16,016)
Decrease in other payables		**(22,787)**	(13,305)
Decrease/(increase) in trading securities		**1,810**	(168,331)
(Increase)/decrease in derivative financial instruments		**(475)**	1,417
Cash generated from/(used in) operations		**26,306**	(318,391)
Interest received		**570**	2,801
Dividend received		**1,800**	900
Interest paid		**(5,825)**	(4,615)
Income tax paid			
– Hong Kong Profits Tax paid		**(6)**	(30)
– Overseas tax paid		**(1,670)**	(13,803)
Net cash generated from/(used in) operating activities		**21,175**	(333,138)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(9,268)**	(6,418)
Refund of deposits paid/(deposits paid) for the purchase of property, plant and equipment		**25,813**	(25,366)
Proceeds from disposal of property, plant and equipment		**765**	569
Proceeds from disposal of non-current assets held for sale		**–**	23,316
Acquisition of subsidiaries, net of cash acquired	*39*	**–**	(820)
Net cash generated from/(used in) investing activities		**17,310**	(8,719)
Financing activities			
Proceeds from shares issued		**–**	157,500
Share issue expenses		**–**	(800)
Proceeds from interest-bearing bank borrowings		**420,906**	318,789
Repayment of interest-bearing bank borrowings		**(428,179)**	(283,539)
Decrease/(increase) in pledged bank deposits		**29,851**	(18,604)
Net cash generated from financing activities		**22,578**	173,346
Net increase/(decrease) in cash and cash equivalents		**61,063**	(168,511)
Cash and cash equivalents at 1 January		**69,113**	234,781
Effect of foreign exchange rate changes		**70**	2,843
Cash and cash equivalents at 31 December		**130,246**	69,113
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents	*28*	**130,246**	69,113

The notes on pages 38 to 121 form part of these consolidated financial statements.

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is located at Suite 1004, 10th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong (moved to the new address at Suite 1510, 15th Floor Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong with effect from 5 May 2014). The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are manufacturing and trading of hard and stuffed toys, manufacturing and sales of beverage products and securities investments. The Group's operations are based in Hong Kong and the People's Republic of China, excluding Hong Kong and Macau (the "PRC"). The principal activities of its principal subsidiaries are set out in note 18(c) to the consolidated financial statements.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provision of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group has adopted the following new and revised HKFRSs issued by the HKICPA that are first effective for the current accounting period.

Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfer of Financial Assets; and
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Group and the Group's interests in associates.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are presented in Hong Kong dollars, rounded to the nearest thousand except for per share data. Hong Kong dollars is the Company's functional and the Group's presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for leasehold buildings, derivative financial instruments and equity instruments at fair value through profit or loss, which have been measured at fair values.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Basis of preparation of the financial statements (Continued)

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 5.

4.2 Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cashflows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries 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. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 Subsidiaries and non-controlling interests (Continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Company's statement of financial position, interests in subsidiaries is stated at cost less impairment losses (see note 4.8), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale)(see note 4.9).

4.3 Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (see note 4.9) (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 4.4 and 4.8). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Associates (Continued)

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 4.9).

4.4 Business combinations

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.4 Business combinations (Continued)

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

- a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12 *Income Taxes;*

- assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 *Employee Benefits*;

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.4 Business combinations (Continued)

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. If some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On the disposal of a cash-generating unit during the year, any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

4.6 Intangible assets (other than goodwill)

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives as follows:

Trademark	20 years
Customer relationships	3 years

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

The amortisation expense is recognised in profit or loss and included in other operating expenses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Property, plant and equipment

Land and buildings held under finance leases, land held under operating leases and buildings thereon (where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease) are stated at valuation less accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the asset revaluation reserve. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the asset revaluation reserve to retained profits.

Other property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and any accumulated impairment losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Property, plant and equipment (Continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold buildings	Over the lease terms
Leasehold improvements	10% to 33%
Plant and machinery	10% to 15%
Furniture, fixtures and office equipment	15% to 20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is higher than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 Impairment of non-financial assets other than goodwill

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).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that an asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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. When 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.

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 4.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

4.10 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Leases (Continued)

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged as expenses in the accounting period in which they are incurred.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as being held under a finance lease and accounted for in accordance with the accounting policies for property, plant and equipment in note 4.7.

4.11 Financial assets

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial assets is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables, loan receivable, pledged bank deposits and cash and cash equivalents in the consolidated statement of financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Financial assets (Continued)

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months from the end of the reporting period.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "net gain/(loss) on trading securities at fair value through profit or loss" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of revenue when the Group' right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are reclassified to profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss as part of revenue when the Group's right to receive payments is established.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Gains or losses on liabilities held for trading are recognised in the consolidated income statement. The net fair value gain or loss recognised in the consolidated income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Financial liabilities (Continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated income statement.

4.14 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

4.15 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.16 Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract issued is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the financial guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, accumulated amortisation.

4.17 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and option pricing models.

4.18 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.19 Convertible bonds

Convertible bonds 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 bonds, the balance recognised in equity will be transferred to retained profits/(accumulated losses). 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 bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. 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 component and are amortised over the lives of the convertible bonds using the effective interest method.

4.20 Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Inventories (Continued)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

4.21 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

4.22 Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.23 Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.23 Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

4.24 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customer has accepted the goods;

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.24 Revenue recognition (Continued)

(b) mould income from the manufacture of moulds for customers is recognised upon completion of the production;

(c) rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned;

(d) interest income is recognised on an accrual basis using the effective interest method; and

(e) dividend income is recognised when the right to receive the dividend is established.

4.25 Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the ''MPF Scheme'') under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain amounts for the employees in the PRC, pursuant to the local municipal government regulations. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.25 Employee benefits (Continued)

Short-term employee benefits

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

4.26 Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign exchange rates ruling at the end of the reporting period. All differences are taken to the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

The functional currency of subsidiaries in the PRC is a currency other than Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of the subsidiaries are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and its income statement is translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve (attributed to non-controlling interest as appropriate). On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on an acquisition of operation outside Hong Kong and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate at the end of the reporting period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.26 Foreign currencies (Continued)

For the purpose of the consolidated statement of cash flows, the cash flows of the subsidiaries in the PRC are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the subsidiaries in the PRC which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rate for the year.

4.27 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

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

4.28 Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Group's parent.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.28 Related parties (Continued)

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

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

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

(i) that person's children and spouse or domestic partner;
(ii) children of that person's spouse or domestic partner; and
(iii) dependents of that person or that person's spouse or domestic partner.

4.29 Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Board of Directors (the "Board") for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and certain disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities in the future.

In the process of applying the Group's accounting policies which are described in note 4, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, as described below.

(a) Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as expected usage of the assets, expected physical wear and tear, the care and maintenance of the assets and legal or similar limits on the use of the assets. The estimation of the useful lives of the assets are based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

(b) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indications of impairment for all its non-financial assets at the end of the reporting period. Indefinite-useful life intangible assets are tested for impairment annually and at other times when such indications exist. Other non-financial assets are tested for impairment when there are indications that the carrying amounts may not be recoverable. In assessing whether there is any indication that the non-financial assets may be impaired, the Group considers indications from both internal and external sources of information such as evidence of obsolescence or decline in economic performance of the assets, changes in market conditions, economic environment and customers' tastes. These assessments are subjective and require management's judgements and estimations.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

(b) Impairment of non-financial assets (other than goodwill) (Continued)

An impairment exists when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. In determining recoverable amounts, it requires management's judgements and estimations.

(c) Impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 4.5. The recoverable amounts of cash-generating units are determined based on value in use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value in use calculations.

(d) Estimate fair value of leasehold buildings

The Group's leasehold buildings are stated at valuation less accumulated depreciation in accordance with the accounting policies stated in note 4.7 to the consolidated financial statements. The valuations of the leasehold buildings are determined by an independent firm of professional valuers, as set out in note 15 to the consolidated financial statements. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

(e) Impairment of receivables

The policy for making allowance for impairment of receivables of the Group is based on the evaluation of collectibility and ageing analysis of the receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer/debtor. If the financial conditions of the customers/debtors of the Group deteriorate thus resulting in impairment as to their ability to make payments, additional allowance for impairment may be required. If the financial conditions of the customers/debtors of the Group, on whose account allowance for impairment has been made, were improved and no impairment of their ability to make payments were noted, reversal of allowance for impairment may be required.

(f) Write down of inventories

The management of the Group reviews the inventories at the end of the reporting period and makes allowance for write down of obsolete, slow-moving and defective items. The management estimates the net realisable value for such inventories based primarily on the expected future market conditions and the estimated selling price. The Group makes allowance for write down if the net realisable value is below the carrying amount.

(g) Income taxes

The Group is subject to income taxes in Hong Kong and the PRC in which the Group operates. Significant judgement is required in determining the amount of the provision for income taxes and the timing of payment of the related taxes. There could be transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of the Group's business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. 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 provisions in the period in which such determination is made.

6. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geographical location. In a manner consistent with the way in which information is reported internally to the Board (the chief operating decision maker) of the Company for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

1. Securities investments: this segment derives its revenue from dividends received from equity securities investments.

2. Manufacturing and trading of hard and stuffed toys: this segment derives its revenue from manufacturing and trading of hard and stuffed toys (the "Toys Segment").

3. Manufacturing and sales of beverage products: this segment derives its revenue from manufacturing and sales of beverage products (the "Beverage Segment").

In accordance with HKFRS 8, segment information disclosed in these consolidated financial statements has been prepared in a manner consistent with the information used by the Board for the purposes of assessing segment performance and allocating resources among segments. In this regard, the Board monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all non-current assets and current assets attributable to an individual reportable segment with the exception of certain unallocated corporate assets and loan receivable.

All liabilities are allocated to reportable segments other than unallocated corporate liabilities.

Segment profit or loss before taxation exclude unallocated interest income and unallocated corporate expenses which are not directly attributable to the business activities of any operating segment.

6. SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities

	Securities investments		Manufacturing and trading of hard and stuffed toys		Manufacturing and sales of beverage products		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue								
Revenue from external customers	**1,800**	900	**441,870**	393,844	**9,566**	180,633	**453,236**	575,377
Reportable segment profit/(loss) before taxation	**4,146**	(28,404)	**(17,656)**	(29,328)	**(33,996)**	(329,023)	**(47,506)**	(386,755)
Other segment information:								
Depreciation	**–**	–	**(9,611)**	(9,566)	**(1,572)**	(6,388)	**(11,183)**	(15,954)
Amortisation of prepaid land premiums	**–**	–	**(152)**	(152)	**–**	–	**(152)**	(152)
Amortisation of intangible assets	**–**	–	**–**	–	**(123)**	(5,072)	**(123)**	(5,072)
Impairment loss of intangible assets	**–**	–	**–**	–	**–**	(88,341)	**–**	(88,341)
Impairment loss of goodwill	**–**	–	**–**	–	**–**	(163,208)	**–**	(163,208)
Impairment loss of property, plant and equipment	**–**	–	**–**	–	**–**	(44,802)	**–**	(44,802)
Impairment loss of trade receivables	**–**	–	**–**	–	**(1,792)**	(1,982)	**(1,792)**	(1,982)
Write down of inventories, net	**–**	–	**(9,292)**	(16,988)	**–**	(23,446)	**(9,292)**	(40,434)
Gain/(loss) on disposal of property, plant and equipment, net	**–**	–	**(457)**	(88)	**4**	–	**(453)**	(88)
Gain on disposal of non-current assets held for sale	**–**	–	**–**	700	**–**	–	**–**	700
Net gain/(loss) on trading securities at fair value through profit or loss	**2,601**	(28,604)	**–**	–	**–**	–	**2,601**	(28,604)
Bank interest income	**–**	–	**114**	996	**141**	112	**255**	1,108
Interest income from customers	**–**	–	**–**	111	**–**	–	**–**	111
Interest expense	**–**	(12)	**(5,825)**	(4,603)	**–**	–	**(5,825)**	(4,615)
Additions to non-current segment assets	**–**	–	**9,046**	2,271	**205**	3,183	**9,251**	5,454
Reportable segment assets	**153,007**	139,727	**293,560**	316,102	**114,970**	185,338	**561,537**	641,167
Reportable segment liabilities	**–**	–	**(175,519)**	(177,032)	**(34,785)**	(72,060)	**(210,304)**	(249,092)

Note: There were no inter-segment sales in both years.

6. SEGMENT REPORTING (Continued)

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

	2012 HK$'000	2011 HK$'000
(i) Loss before taxation		
Reportable segment loss	**(47,506)**	(386,755)
Unallocated interest income	**315**	1,644
Unallocated corporate expenses	**(14,737)**	(13,103)
Consolidated loss before taxation	**(61,928)**	(398,214)
(ii) Assets		
Reportable segment assets	**561,537**	641,167
Loan receivable	**–**	10,062
Unallocated corporate assets	**19,622**	32,935
Consolidated total assets	**581,159**	684,164
(iii) Liabilities		
Reportable segment liabilities	**210,304**	249,092
Unallocated corporate liabilities	**4,807**	3,204
Consolidated total liabilities	**215,111**	252,296

(c) Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	2012 HK$'000	2011 HK$'000
Beverage products	**9,566**	180,633
Hard and stuffed toys	**441,870**	393,844
Securities investments	**1,800**	900
	453,236	575,377

6. SEGMENT REPORTING (Continued)

(d) Geographical information

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets as specified below. The geographical location of customers refers to the location at which the services were provided or the goods delivered. The Group's non-current assets include property, plant and equipment, prepaid land premiums, intangible assets, goodwill and interests in associates. The geographical locations of property, plant and equipment and prepaid land premiums are based on the physical location of the asset under consideration. In the case of intangible assets and goodwill, it is based on the location of the operation to which these intangible assets specified are allocated. In the case of interests in associates, it is based on the location of operations of such associates.

	Revenue from external customers		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**19,883**	14,314	**8,881**	11,600
The PRC	**9,566**	180,633	**139,610**	139,737
United States and Canada	**376,704**	274,592	**–**	–
Japan	**47,083**	105,838	**–**	–
	453,236	575,377	**148,491**	151,337

(e) Information about major customers

Revenue from customers contributing 10% or more of the total sales of the Group is as follows:

	2012	2011
	HK$'000	*HK$'000*
The largest customer		
– revenue from manufacturing and trading of hard and stuffed toys	**267,745**	225,880
Second largest customer		
– revenue from manufacturing and trading of hard and stuffed toys	**87,127**	66,740

7. REVENUE, OTHER REVENUE AND OTHER NET INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and dividend income from the Group's securities investments.

An analysis of the Group's revenue, other revenue and other net income is as follows:

	2012	2011
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**451,436**	574,477
Dividend income	**1,800**	900
	453,236	575,377
Other revenue and other net income		
Other revenue		
Bank interest income	**255**	1,508
Interest income from customers	**–**	111
Interest income from loan receivable	**315**	1,244
Total interest income on financial assets not at fair value through profit or loss	**570**	2,863
Other net income		
Fair value loss on derivative financial instruments – transactions not qualifying as hedges	**–**	(564)
Gain on disposal of non-current assets held for sale	**–**	700
Mould income	**655**	602
Net foreign exchange gain	**260**	2,965
Recovery of bad debt written off	**1,614**	–
Sublet rental income	**504**	480
Sundry income	**1,553**	1,614
	5,156	8,660

8. LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging/(crediting) the following:

	Notes	2012 HK$'000	2011 HK$'000
a) Staff costs			
Employee benefit expense (including directors' remuneration):**			
Wages and salaries		**154,440**	168,553
Other employee benefits		**2,713**	2,015
Pension schemes contributions		**13,290**	15,268
		170,443	185,836
b) Other items			
Auditors' remuneration:			
Audit services			
– Current year		**900**	2,300
– Under provision in prior years		**411**	83
Other services		**958**	105
		2,269	2,488
Cost of inventories	23	**416,351**	475,017
Depreciation of property, plant and equipment*	15	**11,775**	16,200
Amortisation of intangible assets***	20	**123**	5,072
Amortisation of prepaid land premiums	17	**152**	152
Impairment loss of goodwill	21	**–**	163,208
Impairment loss of intangible assets	20	**–**	88,341
Impairment loss of property, plant and equipment ***	15	**–**	44,802
Impairment loss of trade receivables ***	24(b)	**1,792**	1,982
Net foreign exchange gain		**(260)**	(2,965)
Loss on disposal of property, plant and equipment, net ***		**453**	88
Operating lease charges in respect of land and buildings ****		**12,606**	14,341

* Depreciation of approximately HK$4,328,000 (2011: HK$10,520,000) is also included in "Cost of sales" on the face of the consolidated income statement.

** Employee benefit expense of approximately HK$132,191,000 (2011: HK$130,622,000) is also included in "Cost of sales" on the face of the consolidated income statement.

*** These items are included in "Other operating expenses" on the face of the consolidated income statement.

**** Operating lease charges of approximately HK$2,505,000 (2011: HK$2,808,000) is also included in "Cost of sales" on the face of the consolidated income statement.

8. LOSS BEFORE TAXATION (Continued)

	2012 HK$'000	2011 HK$'000
c) Net (gain)/loss on trading securities at fair value through profit or loss		
Realised loss on trading securities at fair value through profit or loss	**10,549**	–
Unrealised (gain)/loss on trading securities at fair value through profit or loss	**(13,150)**	28,604
	(2,601)	28,604

9. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**5,825**	4,615
Total interest expense on financial liabilities not at fair value through profit or loss	**5,825**	4,615

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the chief executive's remuneration are as follows:

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2012				
Executive directors:				
Mr. Lo Ming Chi, Charles (Chief executive)	–	819	41	860
Ms. Danita On	–	734	38	772
Ms. Chan Yuk Yee	–	130	7	137
Ms. Wang Jingyu	–	390	39	429
	–	2,073	125	2,198
Independent non-executive directors:				
Mr. Kwok Ming Fai	81	–	–	81
Mr. Wong Kwok Tai	81	–	–	81
Ms. Leung Pik Har, Christine	81	–	–	81
	243	–	–	243
Non-executive director:				
Mr. Sue Ka Lok	120	–	–	120
	363	2,073	125	2,561

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2011				
Executive directors:				
Mr. Lo Ming Chi, Charles (Chief executive)	–	1,013	51	1,064
Ms. Danita On	–	761	38	799
Mr. Shi Zhiqiang (resigned on 12 December 2011)	–	910	16	926
Mr. Song Tai San (resigned on 21 June 2011)	–	454	–	454
Ms. Chan Yuk Yee	–	130	7	137
Ms. Wang Jingyu	–	390	–	390
	–	3,658	112	3,770
Independent non-executive directors:				
Mr. Kwok Ming Fai	60	–	–	60
Mr. Wong Kwok Tai	60	–	–	60
Ms. Leung Pik Har, Christine	60	–	–	60
	180	–	–	180
Non-executive director:				
Mr. Sue Ka Lok	120	–	–	120
	300	3,658	112	4,070

Mr. Lo Ming Chi, Charles is the director and chief executive of the Company and is responsible for the Company's day-to-day management and overall activities. The remuneration of Mr. Lo Ming Chi, Charles for the years ended 31 December 2012 and 2011 is disclosed above.

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

There was no arrangement under which a director has waived or agreed to waive any remuneration for the years ended 31 December 2012 and 2011.

No remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for the loss of office for the years ended 31 December 2012 and 2011.

11. INDIVIDUALS WITH HIGHEST REMUNERATION

The five highest paid employees during the year included two (2011: two) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2011: three) non-director and non-chief executive highest paid individuals were as follows:

	2012 ***HK$'000***	2011 *HK$'000*
Salaries, allowances and benefits in kind	**4,157**	4,412
Pension scheme contributions	**157**	159
	4,314	4,571

The remuneration of the non-director and non-chief executive highest paid individuals fall within the following bands:

	No. of individuals	
	2012	2011
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**1**	1

For the years ended 31 December 2012 and 2011, no remuneration was paid by the Group to such individuals as an inducement to join or upon joining the Group or as compensation for the loss of office.

12. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement represents:

	2012	2011
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**10**	30
Over provision in prior year	**(17)**	(31)
	(7)	(1)
Current – The PRC		
Charge for the year	**1,603**	9,449
Under provision in prior year	**436**	889
	2,039	10,338
Deferred tax charge/(credit) *(note 32(a))*	**140**	(23,042)
Income tax expense/(credit)	**2,172**	(12,705)

Hong Kong Profits Tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Enterprise Income Tax ("EIT") in the PRC has been provided on the estimated assessable profits of subsidiaries operating in the PRC at 25% (2011: 25%), unless preferential rates are applicable in the locations where the subsidiaries are located.

Taxation arising in other jurisdictions is calculated at the rates of tax prevailing in the relevant jurisdictions.

12. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(b) Reconciliation between tax expense and accounting loss at the applicable tax rates:

	2012 HK$'000	2011 HK$'000
Loss before taxation	**(61,928)**	(398,214)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(7,696)**	(95,228)
Tax effect of unused tax losses not recognised	**21,883**	7,912
Tax effect of non-taxable income	**(17,060)**	(1,513)
Tax effect of non-deductible expenses	**4,077**	74,928
Tax effect of unrecognised temporary differences	**400**	(431)
Effect of withholding tax at 5% on the distributable profits of the Group's subsidiaries in the PRC	**170**	329
Tax effect of utilisation of unused tax loss	**(21)**	–
Under provision of prior year's provision	**419**	858
Others	**–**	440
Tax charge/(credit)	**2,172**	(12,705)

13. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a loss of approximately HK$31,717,000 (2011: HK$466,490,000) which has been dealt with in the financial statements of the Company.

14. LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the year attributable to owners of the Company of approximately HK$58,085,000 (2011: HK$359,410,000) and the weighted average number of 1,686,408,729 (2011: 1,670,792,291) ordinary shares in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2012 and 2011 as the Group had no potentially dilutive ordinary shares in issue during those years.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
2012						
At 1 January 2012						
Cost or valuation	100,600	5,972	141,665	26,137	7,200	281,574
Accumulated depreciation	–	(1,312)	(113,387)	(17,930)	(6,195)	(138,824)
Carrying amount	100,600	4,660	28,278	8,207	1,005	142,750
Year ended 31 December 2012						
Opening net carrying amount	100,600	4,660	28,278	8,207	1,005	142,750
Additions	–	2	2,738	5,616	912	9,268
Disposals	–	(16)	(1,069)	(69)	(64)	(1,218)
Surplus on revaluation	1,159	–	–	–	–	1,159
Depreciation provided during the year	(2,959)	(835)	(5,065)	(2,612)	(304)	(11,775)
Exchange realignment	–	(3)	(13)	12	–	(4)
Closing net carrying amount	98,800	3,808	24,869	11,154	1,549	140,180
At 31 December 2012						
Cost or valuation	98,800	5,956	134,206	31,002	6,596	276,560
Accumulated depreciation	–	(2,148)	(109,337)	(19,848)	(5,047)	(136,380)
Carrying amount	98,800	3,808	24,869	11,154	1,549	140,180
Analysis of cost or valuation:						
At cost	–	5,956	134,206	31,002	6,596	177,760
At valuation	98,800	–	–	–	–	98,800
	98,800	5,956	134,206	31,002	6,596	276,560

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
2011						
At 1 January 2011						
Cost or valuation	96,000	3,418	137,442	25,378	6,739	268,977
Accumulated depreciation	–	(564)	(60,907)	(16,062)	(5,328)	(82,861)
Carrying amount	96,000	2,854	76,535	9,316	1,411	186,116
Year ended 31 December 2011						
Opening net carrying amount	96,000	2,854	76,535	9,316	1,411	186,116
Additions	–	2,358	1,789	1,712	559	6,418
Acquisition of subsidiaries *(note 39)*	–	88	56	43	–	187
Disposals	–	–	(468)	(158)	(31)	(657)
Surplus on revaluation	7,343	–	–	–	–	7,343
Depreciation provided during the year	(2,743)	(729)	(9,909)	(2,467)	(352)	(16,200)
Impairment loss	–	–	(43,564)	(572)	(666)	(44,802)
Exchange realignment	–	89	3,839	333	84	4,345
Closing net carrying amount	100,600	4,660	28,278	8,207	1,005	142,750
At 31 December 2011						
Cost or valuation	100,600	5,972	141,665	26,137	7,200	281,574
Accumulated depreciation	–	(1,312)	(113,387)	(17,930)	(6,195)	(138,824)
Carrying amount	100,600	4,660	28,278	8,207	1,005	142,750
Analysis of cost or valuation:						
At cost	–	5,972	141,665	26,137	7,200	180,974
At valuation	100,600	–	–	–	–	100,600
	100,600	5,972	141,665	26,137	7,200	281,574

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The Group's leasehold buildings were revalued at 31 December 2012 and 2011 by reference to a depreciated replacement cost basis calculated based on the current cost of replacement of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The valuations were carried out by an independent firm of surveyors, RHL Appraisal Limited, whose has among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. A revaluation surplus of HK$1,159,000 (2011: HK$7,343,000) resulted from the above valuations has been recognised in other comprehensive income and asset revaluation reserve.

(b) The carrying amounts of the leasehold buildings of the Group at 31 December 2012 would have been approximately HK$48,832,000 (2011: HK$50,312,000) had they been carried at cost less accumulated depreciation.

(c) Due to the intense market competition of the Beverage Segment, the financial performance of the Beverage Segment was not as profitable as expected and in fact incurred an operating loss during year 2011. The Group assessed the recoverable amounts of Beverage Segment's assets and as a result the carrying amount of the property, plant and equipment was written down by approximately HK$44,802,000 which was included in other operating expenses in the consolidated income statement for the year ended 31 December 2011. The estimates of recoverable amount were based on the property, plant and equipment's fair value less costs to sell, determined by reference to the recent observable market prices for similar assets within the same industry. At 31 December 2012, the Group has performed impairment testing on its property, plant and equipment and no impairment loss has been recognised for the current year.

In respect of the property, plant and equipment of the Toys Segment, no impairment loss has been recognised for the current year after impairment testing at 31 December 2012 (2011: nil).

(d) The leasehold buildings situated in the PRC of HK$98,800,000 (2011: HK$100,600,000) are located on the leasehold land as disclosed in note 17 to the financial statements.

(e) At 31 December 2012, the Group's leasehold buildings and prepaid land premiums (note 17) in the PRC with carrying amounts of HK$98,800,000 (2011: HK$100,600,000) and approximately HK$5,003,000 (2011: HK$5,155,000), respectively were pledged as collateral for the Group's bank borrowings (note 31).

(f) At 31 December 2012, the Group's property, plants and equipment with carrying amount of approximately HK$6,641,000 (2011: HK$7,553,000) were placed in the subcontractors' factory.

(g) During the year ended 31 December 2010, the Group acquired plant and equipment for a consideration amounting to approximately HK$57,418,000 (equivalent to RMB50,000,000) from a subcontractor of the Beverage Segment. During the year ended 31 December 2011, as settlement of part of the consideration, the Group paid approximately HK$13,728,000 (equivalent to RMB11,365,000) to the subcontractor and an amount of approximately HK$24,158,000 (equivalent to RMB20,000,000) owed by the Group was transferred to an independent third party under mutual agreements and with such amount being subsequently settled. As at 31 December 2012, an amount of approximately HK$22,983,000 (equivalent to RMB18,635,000) (2011: HK$47,656,000 (equivalent to RMB38,635,000)) due to the subcontractor was remained unpaid (note 30). According to the sale and purchase agreement, the Group should repay two equal outstanding instalments of approximately HK$11,452,000 (equivalent to RMB9,317,500) each on or before 31 December 2012 and 31 December 2013 respectively. Up to the date of approval of these financial statements, the amount of approximately HK$22,986,000 (equivalent to RMB18,635,000) due to the subcontractor remains unpaid, and the subcontractor has not initiated any legal action or claim against the Group.

16. DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

On 15 February 2011, the Group entered into an agreement with a supplier to purchase a beverage production line. The total contract sum was amounted to approximately HK$50,731,000 (equivalent to RMB42,000,000) of which approximately HK$25,366,000 (equivalent to RMB21,000,000) was paid to the supplier as deposits in March and April 2011. In light of the unsatisfactory performance of the Beverage Segment in the last quarter of 2011, the business of the Beverage Segment had been scaling down since late 2011. In the circumstances, the Group negotiated with the supplier to rescind the purchase contract.

On 29 February 2012, a termination agreement was entered with the supplier in respect of the refund of deposits for the acquisition of property, plant and equipment.

The deposits were refunded by four instalments by the supplier. Three instalments of approximately HK$6,146,000 (equivalent to RMB5,000,000) each and one instalment of approximately HK$7,375,000 (equivalent to RMB6,000,000) were received on 10 April 2012, 20 June 2012, 16 November 2012 and 30 November 2012 respectively.

17. PREPAID LAND PREMIUMS

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Carrying amount at 1 January	**5,155**	5,307
Amortisation	**(152)**	(152)
Carrying amount at 31 December	**5,003**	5,155
Current portion	**(152)**	(152)
Non-current portion	**4,851**	5,003

At 31 December 2012, the Group's leasehold buildings (note 15) and prepaid land premiums in the PRC with carrying amount of approximately HK$98,800,000 (2011: HK$100,600,000) and approximately HK$5,003,000 (2011: HK$5,155,000), respectively, were pledged to secure general banking facilities granted to the Group (note 31).

The leasehold land is held under a medium term lease and is situated in the PRC.

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2012	2011
	HK$'000	*HK$'000*
Unlisted shares, at cost	**156,726**	156,726
Amounts due from subsidiaries *(note (a))*	**804,110**	812,789
	960,836	969,515
Less: Impairment losses *(note (b))*	**(675,669)**	(651,628)
	285,167	317,887

Notes:

(a) The amounts advanced to the subsidiaries included in the interests in subsidiaries above were unsecured and had no fixed terms of repayment. Included in the amounts advanced to the subsidiaries of HK$10,000,000 (2011: HK$10,000,000) bore interest at an effective interest rate of 6.5% (2011: 6.5%) per annum and the remaining balances were non-interest bearing. In the opinion of the directors, these advances were considered as quasi-equity loans to the subsidiaries.

(b) At 31 December 2012, an impairment loss of approximately HK$55,916,000 (2011: HK$55,916,000) was recognised for an unlisted investment in a subsidiary with a carrying amount of approximately HK$156,726,000 (before deducting the impairment loss) (2011: HK$156,726,000) because that subsidiary had also recognised an impairment loss in respect of its subsidiaries, which were loss-making.

At 31 December 2012, an impairment loss of approximately HK$619,753,000 (2011: HK$595,712,000) was recognised for advances to subsidiaries with aggregate carrying amount of approximately HK$804,110,000 (2011: HK$812,789,000) (before deducting impairment loss) because the advances were considered as uncollectible as those subsidiaries had incurred losses for some time and were at net liabilities position as at 31 December 2012.

(c) Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operation	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Alliance Credit Services Limited	Hong Kong	Ordinary HK$10,000	–	100%	Provision of credit finance services
Alliance Winner Limited	British Virgin Islands	Ordinary US$1	–	100%	Investment holding
Central Information Limited	Hong Kong	Ordinary HK$100	–	100%	Trading of securities and provision of management services
Chongxin Co., Limited	Hong Kong	Ordinary HK$1	–	100%	Investment holding
Jiming Limited	British Virgin Islands	Ordinary US$1	100%	–	Investment holding

18. INTERESTS IN SUBSIDIARIES (Continued)

Notes (Continued):

(c) Particulars of the principal subsidiaries are as follows (Continued):

Name	Place of incorporation/ registration and operation	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Pearl Delta Toys Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$2,000,000	–	100%	Provision of agency services
Sewco (B.V.I.) Limited	British Virgin Islands	Ordinary US$401	100%	–	Investment holding
Sewco Toys & Novelty Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$420,000	–	100%	Investment holding and trading of toy products
撫州崇信玩具製品有限公司 (Fuzhou Chongxin Toys Manufacturing Co. Ltd.*)# ("Fuzhou Chongxin")	The PRC	Paid-up registered HK$1,000,000	–	100%	Manufacturing and sales of toys products
中山崇高玩具製品廠有限公司 (Zhongshan Sewco Toys & Novelty Limited*) #	The PRC	Paid-up registered HK$123,800,000	–	100%	Manufacturing and sales of toy products
大亨(天津)食品工業有限公司 (Daheng (Tianjin) Foods Industry Co, Ltd.*)#	The PRC	Paid-up registered US$6,000,000	–	82.3%	Distribution and sales of beverage products
大亨果汁(天津)有限公司 (Daheng Beverage (Tianjin) Co. Ltd.*)#	The PRC	Paid–up registered US$14,998,500	–	82.3%	Distribution and sales of beverage products
天津大亨食品銷售有限公司##	The PRC	Paid–up registered RMB10,000,000	–	82.3%	Distribution of beverage products
山枝(天津)飲料銷售有限公司##	The PRC	Paid–up registered RMB5,000,000	–	82.3%	Distribution and sales of pre-packed beverage products

\# A wholly foreign-owned enterprise registered in the PRC.

\## These companies are registered under the laws of the PRC as limited liability companies.

* For identification purpose only

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

19. INTERESTS IN ASSOCIATES

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Share of net assets	**–**	–
Goodwill on acquisition	**4,964**	4,964
Written-off	**(4,964)**	–
	–	4,964
Less: Impairment loss	**(4,964)**	(4,964)
Written-off	**4,964**	–
	–	–

Particulars of the associates are as follows:

Name	Particulars of issued shares/common stocks held	Place of incorporation/ operation	Percentage of ownership interest attributable to the Group	Principal activities
Jasman Asia Limited	Ordinary shares of HK$10 each	Hong Kong	40%	Dissolved in year 2012
Jasman Inc.	Common shares of no par value	The United States of America	40%	Dissolved in year 2010
Jasman USA Inc.	Common stocks of US$0.01 each	The United States of America	40%	Dissolved in year 2010

The above associates are not audited by Crowe Horwath (HK) CPA Limited ("Crowe Horwath") or other member firm of Crowe Horwath global network.

The Group has discontinued the recognition of its share of losses of its associates since year 2009 because the share of losses of these associates exceeded the Group's interests in these associates. Impairment loss was recognised as at 31 December 2012 for the interests in associates amounting to HK$4,964,000 (2011: HK$4,964,000) because the associates were in financial difficulties. As the associates were dissolved, the interests in associates were written-off during the year.

The Group's trade receivables from an associate is disclosed in note 24 to the consolidated financial statements.

Management accounts for the Group's associates are not available as these associates were dissolved. Jasman Asia Limited, Jasman Inc. and Jasman USA Inc. were dissolved on 27 October 2012, 12 March 2010 and 16 June 2010 respectively.

20. INTANGIBLE ASSETS

The Group

	Golf club membership HK$'000	Trademark HK$'000	Customer relationships HK$'000	Total HK$'000
Cost				
At 1 January 2011	600	93,440	700	94,740
Exchange realignment	–	5,240	39	5,279
At 31 December 2011 and 1 January 2012	600	98,680	739	100,019
Exchange realignment	–	(12)	(1)	(13)
At 31 December 2012	**600**	**98,668**	**738**	**100,006**
Accumulated amortisation and impairment loss				
At 1 January 2011	(150)	(1,558)	(78)	(1,786)
Amortisation	–	(4,831)	(241)	(5,072)
Impairment loss	–	(87,938)	(403)	(88,341)
Exchange realignment	–	(2,053)	(17)	(2,070)
At 31 December 2011 and 1 January 2012	(150)	(96,380)	(739)	(97,269)
Amortisation	–	(123)	–	(123)
Exchange realignment	–	11	1	12
At 31 December 2012	**(150)**	**(96,492)**	**(738)**	**(97,380)**
Carrying amount				
At 31 December 2012	**450**	**2,176**	**–**	**2,626**
At 31 December 2011	450	2,300	–	2,750

Notes:

(a) The Group acquired the trademark and customer relationships through the acquisition of Tycoon Beverage Group Co. Ltd. and its subsidiaries (collectively referred to as "Tycoon Beverage Group") on 8 September 2010. The trademark and customer relationships had a finite life of 20 years and 3 years respectively. The trademark and customer relationships were valued by Roma Appraisals Limited, an independent qualified professional valuer not connected with the Group, at a fair value of approximately HK$91,000,000 and approximately HK$700,000 respectively at the acquisition date.

(b) Amortisation had been provided on a straight-line basis over the remaining useful life of 20 years and 3 years for trademark and customer relationships respectively from the date of acquisition. The amortisation charge of approximately HK$123,000 (2011: HK$5,072,000) for the year ended 31 December 2012 was included in other operating expenses in the consolidated income statement.

(c) Details of impairment testing are set out in note 21.

21. GOODWILL

For the purpose of impairment testing, goodwill is allocated to the cash-generating units ("CGUs") identified according to operating segments as follows:

The Group

	Beverage Segment *HK$'000*	Toys Segment *HK$'000*	Total *HK$'000*
Cost			
At 1 January 2011	323,459	–	323,459
Acquisition of subsidiaries *(note 39)*	–	834	834
Exchange realignment	18,140	–	18,140
At 31 December 2011 and 1 January 2012	341,599	834	342,433
Exchange realignment	(42)	–	(42)
At 31 December 2012	**341,557**	**834**	**342,391**
Accumulated impairment loss			
At 1 January 2011	(165,639)	–	(165,639)
Impairment loss	(163,208)	–	(163,208)
Exchange realignment	(12,752)	–	(12,752)
At 31 December 2011 and 1 January 2012	(341,599)	–	(341,599)
Exchange realignment	42	–	42
At 31 December 2012	**(341,557)**	**–**	**(341,557)**
Carrying amount			
At 31 December 2012	**–**	**834**	**834**
At 31 December 2011	–	834	834

The Group acquired the Tycoon Beverage Group on 8 September 2010. The goodwill of the Beverage Segment arose from such acquisition.

Details of goodwill of approximately HK$834,000 arose from the acquisition of subsidiaries in the Toys Segment during the year 31 December 2011 are in note 39.

21. GOODWILL (Continued)

The recoverable amount for the cash-generating units was determined based on value in use calculations covering a detailed three-year budget plan for the Toys Segment and a five-year budget plan for the Beverage Segment followed by an extrapolation of expected cash flows at the estimated growth rate stated below. The growth rate reflects the long-term average growth rate for the product lines of the cash-generating units.

The key assumptions used for value in use calculations were as follows:

	Toys Segment		Beverage Segment	
	2012	2011	**2012**	2011
Growth rate	**14.13%**	14.13%	**Nil**	30.40%
Discount rate	**10.00%**	10.00%	**Nil**	13.24%

The key assumptions also included stable profit margins and management's expectations for market share, after taking into consideration market forecast and research. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflects specific risks relating to the relevant segment.

Apart from the considerations described in determining the value in use of the cash-generating units above, the Group's management is not currently aware of other probable changes that would necessitate changes in its key estimates.

In late September 2011, the management had observed that due to the intense market competition faced by its beverage business, the single product line effect that the classic hawthorn fruit tea series remained as the key sales driver of the operation, the resignation of key management members of the operation, the over-expansion of the operation and the substantial increases in the operation's selling, distribution and administrative expenses, the results of the Tycoon Beverage Group had been unsatisfactory. As such, the management had undertaken various business initiatives with the view to enhance profitability of the operation including the trim down of its sales and distribution network. However, the negative impact brought by the cost cutting measures in trimming down the operation's sales and distribution network was much larger than the management had originally anticipated, resulting in a significant drop in the operation's revenue and an operating loss was incurred for the year ended 31 December 2011.

The carrying amount of the unit was determined to be higher than its recoverable amount and an impairment loss of approximately HK$251,549,000 was recognised and allocated to goodwill and intangible assets of approximately HK$163,208,000 and approximately HK$88,341,000 respectively, in the consolidated income statement for the year ended 31 December 2011.

In respect of the Toys Segment, no impairment loss for goodwill had been recognised as at 31 December 2012 and 2011 after impairment testing was performed as at the respective reporting date as the recoverable amount was higher than the carrying amount of the CGU.

22. LOAN RECEIVABLE

At 31 December 2011, the balance of approximately HK$10,062,000 represented an advance made by a subsidiary of the Company to an independent third party. Loan interest was charged at 12% per annum. The loan receivable was settled on 5 April 2012.

23. INVENTORIES

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Raw materials	**34,302**	32,831
Work in progress	**33,579**	35,357
Finished goods	**33,057**	36,556
	100,938	104,744

The analysis of the amount of inventories recognised as an expenses is as follows:

	2012	2011
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**407,059**	434,583
Write down of inventories, net	**9,292**	40,434
	416,351	475,017

Notes:

(i) During the year ended 31 December 2012, obsolete and slow-moving inventories of approximately HK$9,292,000 (2011: HK$40,434,000) were identified and written down to their net realisable value.

(ii) The bank borrowings of a subsidiary were secured by inventories amounting to approximately HK$6,625,000 (2011: HK$4,321,000) (note 31).

24. TRADE RECEIVABLES

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**34,467**	94,190
Less: allowance for impairment loss	**(3,823)**	(2,023)
	30,644	92,167

All of the trade receivables are expected to be recovered within one year.

(a) Ageing analysis

The following is an analysis of trade receivables by age, presented based on the invoice date and net of allowance:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
0 to 30 days	**13,177**	42,309
31 to 90 days	**16,969**	11,131
Over 90 days	**498**	38,727
	30,644	92,167

The Group's trading terms with its customers are mainly on credit with credit periods generally ranging from 30 to 180 days. The Group seeks to maintain strict control over its outstanding receivables, and overdue balances are reviewed regularly by management. Trade receivables are non-interest bearing.

As at 31 December 2011, included in the Group's trade receivables was an amount due from an associate of approximately HK$14,381,000 (before deducting the impairment loss of approximately HK$14,381,000), which was repayable on similar credit terms to those offered to the major customers of the Group. As the associate was dissolved in the year 2012, the amount due from an associate was written-off during the year ended 31 December 2011.

24. TRADE RECEIVABLES (Continued)

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written-off against trade receivables directly (see note 4.12).

The movement in allowance for impairment of trade receivables is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**2,023**	14,381
Impairment loss recognised	**1,792**	1,982
Written-off	**–**	(14,381)
Exchange realignment	**8**	41
At 31 December	**3,823**	2,023

At the end of the reporting period, the Group reviews trade receivables for evidence of impairment on both individual and collective basis. The impairment on receivables are recognised based on the credit history of its customers, indication of financial difficulties, default in payments, and current market conditions. As at 31 December 2012, trade receivables of the Group amounting to approximately HK$3,823,000 (2011: HK$2,023,000) were individually determined to be impaired and impairment loss of the full amount had been recognised. These individually impaired receivables related to customers that were default in payments.

The trade receivable of approximately HK$14,381,000 was related to an associate of the Group that was in financial difficulty, the receivable was not expected to be recovered and the full amount was impaired in previous years. The associate was dissolved on 27 October 2012 and the amount was written-off during the year ended 31 December 2011.

24. TRADE RECEIVABLES (Continued)

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**13,177**	42,415
Past due but not impaired		
Less than 1 month past due	**10,266**	6,599
1 to 3 months past due	**6,703**	4,614
Over 3 months	**498**	38,539
	30,644	92,167

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

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no allowance for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The disclosures for factoring of financial assets relating to trade receivables factoring arrangements are provided in note 43.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other receivables	**11,692**	10,838	**–**	–
Prepayments and deposits *(note i)*	**4,933**	46,430	**370**	470
	16,625	57,268	**370**	470

Notes:

(i) At 31 December 2011, included in prepayments, deposits and other receivables was prepayments of approximately HK$33,551,000 (equivalent to RMB27,200,000) for purchase of raw materials and approximately HK$8,005,000 (equivalent to RMB6,490,000) for purchase of finished goods recorded in the Beverage Segment.

In light of the unsatisfactory performance of the Beverage Segment in the last quarter of 2011 and the business of the Beverage Segment had been scaling down since late 2011, the Group negotiated with the supplier to rescind the purchase contract.

On 20 February 2012, a termination agreement was entered with the supplier in respect of the refund of prepayment of purchase of raw materials. The supplier agreed to settle the prepayment amount by four instalments. Four instalments of approximately HK$8,358,000 (equivalent to RMB6,800,000) each were received during the year ended 31 December 2012.

On 13 March 2012, a termination agreement was entered with the supplier in respect of the refund of prepayment of finished goods of approximately HK$3,442,000 (equivalent to RMB2,800,000) by four instalments. The refunds were received during the year ended 31 December 2012.

The remaining prepayments of finished goods were refunded by the supplier by two instalments. The refunds of approximately HK$4,535,000 (equivalent to RMB3,690,000) were received during the year ended 31 December 2012.

(ii) All of the prepayments, deposits and other receivables are expected to be recovered within one year.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss		
– Currency options	**–**	782
– Interest rate swaps	**–**	61
	–	843
Financial liabilities at fair value through profit or loss		
– Currency options	**–**	1,318

During the year ended 31 December 2011, the Group entered the above contracts to mitigate exchange rate exposure of Renminbi against Hong Kong dollars or United States dollars and interest rate exposure arising from certain interest-bearing bank borrowings of approximately HK$31,442,000 (note 31) which were interest bearing at floating rate.

These derivative financial instruments were stated at fair value. The fair value of these instruments had been measured as described in note 42(f). Fair value gain or loss were credited or charged to profit or loss under other net income.

27. TRADING SECURITIES

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Listed equity securities in Hong Kong, at fair value	**151,067**	139,727

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and cash equivalents include:				
Cash and bank balances in the statement of financial position	**130,246**	69,113	**13,768**	10,865
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**130,246**	69,113		
Pledged bank deposits	**2,996**	32,847	**–**	–

At 31 December 2012, the cash and bank balances of the Group denominated in Renminbi amounting to approximately HK$96,552,000 (2011: HK$24,180,000). Renminbi is not freely convertible into other currencies. However, subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Bank balances carried interest rates which ranged from 0.001% to 3.25% per annum (2011: 0.001% to 0.5% per annum). The bank balances were deposited with creditworthy banks with no recent history of default.

Pledged bank deposits represented deposits pledged to banks to secure banking facilities and interest-bearing bank borrowings granted to the Group. As at 31 December 2012, deposits amounting to HK$2,996,000 (2011: HK$32,847,000) were pledged to secure banking facilities and interest-bearing bank borrowings (note 31) granted to the Group. The pledged bank deposits would be released upon settlement of the relevant bank borrowings.

The interest rates on the pledged bank deposits was 0.001% (2011: 0.4% to 0.5%) per annum.

29. TRADE PAYABLES

The ageing analysis of the trade payables as at 31 December 2012 is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
0 to 30 days	**18,345**	21,472
31 to 90 days	**18,508**	20,962
Over 90 days	**6,640**	10,406
	43,493	52,840

The trade payables are expected to be settled within one year.

30. OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables and accruals	**69,463**	90,817	**4,042**	2,468
Receipt in advance	**1,137**	2,738	**–**	–
Amount due to a subsidiary	**–**	–	**57**	–
Amounts due to directors	**224**	56	**169**	–
	70,824	93,611	**4,268**	2,468

Included in other payables and accruals was an amount of approximately HK$22,983,000 (equivalent to RMB18,635,000) (2011: HK$47,656,000 (equivalent to RMB38,635,000)) payable for the acquisition of property, plant and equipment for the Beverage Segment.

All the other payables are expected to be settled within one year.

The amounts due to directors are unsecured, interest free and has no fixed terms of repayment.

The amount due to a subsidiary is unsecured, interest free and has no fixed terms of repayment.

31. INTEREST-BEARING BANK BORROWINGS

Details of bank borrowings are as follows:

	The Group					
	2012			2011		
	Contractual interest rate (%)	**Maturity**	***HK$'000***	Contractual interest rate (%)	Maturity	*HK$'000*
Current						
Bank loans – secured	**Fixed rates of 5% per annum**	**April 2013**	**77,500**	Fixed rates of 5.50% to 5.70% per annum	April 2012	62,000
Bank loans – secured	**2.5% per annum over 3 months SIBOR**	**March 2013**	**11,260**	2.50% per annum over 2 months SIBOR	March 2012	1,491
Bank loans – secured			–	LIBOR plus 1.85% per annum	February 2012	1,100
Bank loans – secured			–	LIBOR plus 0.8% per annum	March 2012	31,442
			88,760			96,033

The above bank loans are repayable within one year and carried at amortised costs.

Notes:

(a) The Group's bank borrowings were secured by:

(i) mortgage over the Group's leasehold buildings (note 15) and prepaid land premiums (note 17) in the PRC with aggregate carrying amount of HK$98,800,000 (2011: HK$100,600,000) and approximately HK$5,003,000 (2011: HK$5,155,000), respectively;

(ii) pledge over the Group's bank deposits of approximately HK$2,996,000 (2011: HK$32,847,000) (note 28); and

(iii) pledge over the Group's inventories of approximately HK$6,625,000 (2011: 4,321,000) (note 23).

(iv) the Group's trade receivables of approximately HK$13,247,000 (2011: nil) pursuant to a trade receivable factoring arrangement with bank (note 43).

(b) The total banking facilities granted to the Group amounted to approximately HK$107,364,000 (2011: HK$221,824,000) of which approximately HK$88,760,000 (2011: HK$96,033,000) were utilised as at 31 December 2012.

(c) A subsidiary of the Group was subject to the fulfilment of certain financial and non-financial covenants, as commonly found in lending arrangements of interest-bearing bank borrowings. The subsidiary regularly monitors its compliance with these covenants. As at 31 December 2012, none of the covenants relating to the banking facilities had been breached (2011: nil).

32. DEFERRED TAX

(a) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Accelerate tax depreciation *HK$'000*	Revaluation of properties *HK$'000*	Intangible assets *HK$'000*	Tax losses *HK$'000*	Withholding tax *HK$'000*	Total *HK$'000*
At 1 January 2011	687	1,965	23,126	(934)	910	25,754
Deferred tax (credited)/charged to profit or loss for the year *(note 12)*	–	(18)	(23,353)	–	329	(23,042)
Withholding tax paid during the year	–	–	–	–	(107)	(107)
Deferred tax on surplus on revaluation of properties	–	453	–	–	–	453
Exchange realignment	(76)	–	801	–	45	770
At 31 December 2011 and 1 January 2012	611	2,400	574	(934)	1,177	3,828
Deferred tax (credited)/charged to profit or loss for the year *(note 12)*	–	–	(30)	–	170	140
Deferred tax on surplus on revaluation of properties	–	3,529	–	–	–	3,529
Exchange realignment	1	(418)	(76)	–	–	(493)
At 31 December 2012	**612**	**5,511**	**468**	**(934)**	**1,347**	**7,004**

32. DEFERRED TAX (Continued)

(b) Deferred tax assets not recognised

The Group has estimated tax losses arising in Hong Kong of approximately HK$210,920,000 (2011: HK$125,947,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for the companies in which losses arose. The Group has tax losses of approximately HK$31,865,000 (2011: nil) available for offsetting against future profits that may be carried forward for up to five years for EIT purpose.

The tax affairs of a subsidiary (incorporated in Hong Kong) of the Group for the period starting from 1 January 2004 are currently under field audit by the Hong Kong Inland Revenue Department ("IRD"). The directors, after consultation with the subsidiary's tax advisers, consider that the IRD is still in the information gathering stage and it is premature to quantify the amount of potential liabilities of the subsidiary, if any, that may arise.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate of 5% is applied to the Group as there is a tax treaty between the PRC and Hong Kong.

The Group is therefore liable to withholding taxes on dividends distributed by the subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. SHARE CAPITAL

	2012 ***HK$'000***	2011 *HK$'000*
Authorised:		
7,000,000,000 ordinary shares of HK$0.10 each	**700,000**	700,000
Ordinary shares, issued and fully paid:		
1,686,408,729 (2011: 1,686,408,729) ordinary shares of HK$0.10 (2011: HK$0.10) each	**168,641**	168,641

33. SHARE CAPITAL (Continued)

During the year ended 31 December 2011, the movement in share capital was as follows:

On 8 February 2011, 150,000,000 shares of the Company were placed by the placing agent to not less than six independent placees at the placing price of HK$1.05 per share resulting in raising proceeds before expenses of HK$157,500,000. The net proceeds of this placing of approximately HK$156,700,000 (equivalent to a net price of approximately HK$1.04 per share) were used for general working capital of the Group and/or opportunistic investments if suitable opportunities arose in the future.

A summary of the movement during the year in the Company's issued share capital is as follows:

	Number of shares in issue	**Issued share capital**
		HK$'000
At 1 January 2011	1,536,408,729	153,641
Issue of shares	150,000,000	15,000
At 31 December 2011, 1 January 2012 and 31 December 2012	**1,686,408,729**	**168,641**

34. SHARE OPTION SCHEME

The Company operated a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Eligible participants of the Scheme included any full-time employee or executive of the Company or any of its subsidiaries, including any executive or non-executive directors, any discretionary object of a grantee which was a discretionary trust, and any shareholder of any member of the Group or any holder of any securities issued by any member of the Group. The Scheme was adopted and approved by the shareholders of the Company on 5 February 2002 and, unless otherwise cancelled or amended, would remain in force for 10 years from that date.

34. SHARE OPTION SCHEME (Continued)

The total number of shares which might be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company (the "Limit") must not in aggregate exceed 10% of the shares of the Company in issue on 6 March 2002 (the commencement date of dealings of the Company's shares on the Stock Exchange). The Company might seek approval of its shareholders in a general meeting to refresh the Limit, provided that the total number of shares which might be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company under the Limit as "refreshed" must not exceed 10% of the shares in issue as at the date of approval of the refreshment of the Limit. The maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes must not exceed 30% of the issued share capital of the Company at any time. The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12 month period was limited to 1% of the shares of the Company in issue. Any further grant of share options in the 12 month period up to and including the date of such further grant in excess of this limit was subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, were subject to approval in advance by the independent non-executive directors, other than an independent non-executive director who was proposed to be a grantee. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period up to and including the date of such grant, was subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options might be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted was determined by the directors, and commenced at any time on or after the date upon which the option was deemed to be granted and accepted, and expired not later than the 10th anniversary of that date. There was no specific requirement that an option must be held for any minimum period before it could be exercised.

34. SHARE OPTION SCHEME (Continued)

The exercise price of the share options was determinable by the directors, but should not be less than the highest of:

(i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of the share options which must be a trading day;

(ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; and

(iii) the nominal value of the Company's shares.

No share options had been granted under the Scheme since its adoption and the Scheme was expired on 4 February 2012. Therefore, there are no shares available for issue under the Scheme as at date of this annual report.

35. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity of the consolidated financial statements.

35. RESERVES (Continued)

(b) The Company

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	542,803	152,762	(212,662)	482,903
Loss for the year and total comprehensive loss for the year	–	–	(466,490)	(466,490)
Issue of shares	142,500	–	–	142,500
Share issue expenses	(800)	–	–	(800)
At 31 December 2011 and 1 January 2012	684,503	152,762	(679,152)	158,113
Loss for the year and total comprehensive loss for the year	–	–	(31,717)	(31,717)
At 31 December 2012	**684,503**	**152,762**	**(710,869)**	**126,396**

(c) Nature and purpose of reserves

(i) Share premium

The application of share premium is governed by Section 40 of the Bermuda Companies Act 1981. The share premium of the Company is distributable to the owners of the Company in the form of fully paid bonus shares.

(ii) Contributed surplus

The contributed surplus of the Company arose as a result of the reorganisation of the Group and represented the excess of the combined net assets of the subsidiaries acquired pursuant to the reorganisation, over the nominal value of the Company's shares issued in exchange therefore.

Under the Bermuda Companies Act 1981, the Company's contributed surplus is available for cash distribution and/or distribution in specie under certain circumstances.

35. RESERVES (Continued)

(c) Nature and purpose of reserves (Continued)

(iii) Asset revaluation reserve

The asset revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for leasehold buildings in note 4.7. The revaluation reserve is not distributable to the owners of the Company.

(iv) Statutory reserve fund

The Group's PRC subsidiaries are required to allocate at least 10% of its net profit according to its PRC audited financial statements to the statutory reserve fund until the balance of such reserve has reached 50% of the subsidiaries' registered capital. Any further appropriation is optional. The statutory reserve fund shall only be used for making up losses or for capitalisation into share capital, provided that the remaining balance is not less than 20% of the registered capital after such capitalisation.

(v) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the overseas subsidiaries. The reserve is dealt with in accordance with the accounting policy set out in note 4.26.

(d) Distributability of reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to owners of the Company was approximately HK$126,396,000 (2011: HK$158,113,000).

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

35. RESERVES (Continued)

(e) Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt ("adjusted capital"). The Group's policy is to maintain the gearing ratio less than 75%. Net debt includes interest-bearing bank borrowings, trade payables and other payables, less cash and cash equivalents and pledged bank deposits. Capital represents total equity. The net debt-to-adjusted capital ratio as at the end of reporting periods were as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Interest-bearing bank borrowings	**88,760**	96,033
Trade payables	**43,493**	52,840
Other payables	**70,824**	93,611
Less: Pledged bank deposits	**(2,996)**	(32,847)
Cash and cash equivalents	**(130,246)**	(69,113)
Net debt	**69,835**	140,524
Total equity	**366,048**	431,868
Capital and net debt	**435,883**	572,392
Gearing ratio	**16%**	25%

(f) Dividend

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

36. FINANCIAL GUARANTEES

At the end of the reporting period, the Group and the Company did not provide any corporate guarantees to any party.

37. OPERATING LEASE COMMITMENTS

The Group is a lessee in respect of a number of properties held under operating leases. Leases for these properties are negotiated for a term of one to ten years with an early termination option. None of the leases includes contingent rentals.

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Within one year	**6,881**	6,849
In the second to fifth years, inclusive	**3,860**	1,170
	10,741	8,019

38. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments outstanding but not provided for in the consolidated financial statements:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Contracted but not provided for:		
Purchase of property, plant and equipment	**–**	1,416

39. ACQUISITION OF SUBSIDIARIES

On 7 October 2011, the Group acquired 100% of the share capital of Chongxin Co., Limited ("Chongxin"), incorporated in Hong Kong, whose principal activity is investment holding. Its subsidiary, Fuzhou Chongxin, incorporated in the PRC, is engaged in the manufacturing and sales of toys products. The consideration of the acquisition was HK$1,000,000. The acquisition was made with the aim to achieve cost savings in the toys business of the Group.

39. ACQUISITION OF SUBSIDIARIES (Continued)

The fair value of identifiable assets and liabilities of Chongxin as at the date of acquisition were as follows:

	HK$'000
Property, plant and equipment	187
Prepayments, other receivables and deposits	851
Cash and cash equivalents	180
Trade payables	(51)
Tax payables	(16)
Other payables	(985)
Net assets acquired	166
Goodwill *(note 21)*	834
Fair value of consideration transferred	1,000

	HK$'000
Satisfied by:	
Cash	3
Loan assignment for an amount due to the vendor by Chongxin (settled by cash)	997
	1,000

No significant acquisition-related costs incurred.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Chongxin is as follows:

	HK$'000
Purchase consideration settled in cash	(1,000)
Cash and cash equivalents acquired	180
Net cash outflow on acquisition	(820)

39. ACQUISITION OF SUBSIDIARIES (Continued)

Goodwill was attributable to the synergies expected to arise after the Group's acquisition of Chongxin. Goodwill was not expected to be deductible for tax purpose.

Since the acquisition date, Chongxin and its subsidiary had contributed nil revenue to the Group's revenue as their revenue had been eliminated on consolidation and posted loss after tax of approximately HK$11,000 to the Group's profit or loss. If the acquisition had occurred on 1 January 2011, the Group's revenue would have been approximately HK$575,377,000 and loss after income tax would have been approximately HK$386,118,000 for the year ended 31 December 2011. This pro forma information is for illustrative purpose only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

40 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

The key management personnel of the Group are the directors and chief executive of the Company. Details of their remuneration as set out in note 10 to the consolidated financial statements are as follows:

	2012 ***HK$'000***	2011 *HK$'000*
Salaries and other short-term employee benefits	**2,436**	3,958
Pension scheme contributions	**125**	112
	2,561	4,070

40 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) The Group had the following material transactions with related parties during the year:

	2012	2011
	HK$'000	*HK$'000*
Rental expense *(note (i))*	**504**	1,232
Sublet rental income *(note (ii))*	**504**	480

Notes:

(i) The rental expense was paid to a company controlled by a person who is holding a 17.7% shareholding in a subsidiary of the Company. During the year ended 31 December 2011, included in the rental expense of approximately HK$242,000 (equivalent to RMB200,000) represented the under-provision for rental expense for the year ended 31 December 2010.

(ii) The sublet rental income was received from a company, which was controlled by the ultimate controlling shareholder of the Company, for leasing part of an office premises from the Group.

In the opinion of the Company's directors, the above transactions were conducted on terms mutually agreed by the Group and the related parties.

The Company did not have any related parties transactions during the year.

41. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Financial assets		
Financial assets at fair value through profit or loss		
Held for trading		
Derivative financial instruments	**–**	843
Trading securities	**151,067**	139,727
Loans and receivables		
Trade receivables	**30,644**	92,167
Loan receivable	**–**	10,062
Financial assets included in deposits and other receivables	**14,952**	11,960
Pledged bank deposits	**2,996**	32,847
Cash and cash equivalents	**130,246**	69,113
	329,905	356,719

41. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY (Continued)

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Financial liabilities		
Financial liabilities at fair value through profit or loss		
Held for trading		
Derivative financial instruments	**–**	1,318
Financial liabilities measured at amortised cost		
Trade payables	**43,493**	52,840
Financial liabilities included in other payables	**69,687**	90,873
Interest-bearing bank borrowings	**88,760**	96,033
	201,940	241,064

	The Company	
	2012	2011
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables		
Cash and cash equivalents	**13,768**	10,865

	2012	2011
	HK$'000	*HK$'000*
Financial liabilities		
Financial liabilities measured at amortised cost		
Financial liabilities included in other payables	**4,211**	2,468

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise derivative financial instruments, trading securities, trade and other receivables loan receivable, cash and cash equivalents, pledged bank deposits, trade and other payables, and interest-bearing bank borrowings. The Company's major financial instruments include other receivables, other payables and cash and cash equivalents.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, foreign currency risk and equity price risk. The Group seeks to minimise the effects of certain interest rate and foreign currency risks by using derivative financial instruments to hedge these risk exposures. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Credit risk

The Group

The Group trades only with recognised and creditworthy third parties. The Group's sales for the segment of manufacturing and trading of hard and stuffed toys are made to several major customers and there is concentration of credit risk. In respect of the segment of manufacturing and sales of beverage products, there is no concentration of credit risk. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. At the end of the reporting period, the Group had certain concentrations of credit risk as 55.4% (2011: 13.1%) and 86.3% (2011: 52.2%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively, in the segment of manufacturing and trading of hard and stuffed toys.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the consolidated financial statements.

Transactions involving derivative financial instruments and trading securities are with counterparties of sound credit standing. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, including derivative financial instruments and trading securities in the consolidated statement of financial position after deducting any impairment allowance.

The Company

At 31 December 2012, the Company had certain concentration of credit risk as 97.2% (2011: 96.5%) of the total cash and cash equivalents was deposited with one financial institution in Hong Kong with high credit ratings.

(b) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its own operating cash reserve and interest-bearing bank borrowings. The Group maintains good business relations with its bankers and ensures compliance with covenants as stipulated in the banking facility agreements.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted cash flows, is as follows:

The Group

2012

	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	Contractual undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
Interest-bearing bank borrowings	–	60,203	29,422	89,625	88,760
Trade payables	18,345	18,508	6,640	43,493	43,493
Other payables	69,687	–	–	69,687	69,687
	88,032	78,711	36,062	202,805	201,940

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Liquidity risk (Continued)

2011

	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	Contractual undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
Interest-bearing bank borrowings	–	80,364	16,117	96,481	96,033
Trade payables	21,472	20,962	10,406	52,840	52,840
Other payables	90,873	–	–	90,873	90,873
	112,345	101,326	26,523	240,194	239,746
Derivative financial instruments:					
– cash outflow	–	712	606	1,318	1,318

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Liquidity risk (Continued)

The maturity profile of the Company's financial liabilities, based on the contractual undiscounted cash flows, is as follows:

The Company

2012

	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	Contractual undiscounted cash flows HK$'000	Carrying amount HK$'000
Other payables	**4,211**	**–**	**–**	**4,211**	**4,211**

2011

	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	Contractual undiscounted cash flows HK$'000	Carrying amount HK$'000
Other payables	2,468	–	–	2,468	2,468

(c) Interest rate risk

The Group

The Group's interest rate risk arises primarily from the Group's interest-bearing bank borrowings. Borrowings raised at variable rates expose the Group to cash flow interest rate risk. In addition, the Group has entered into certain interest rate swap contracts to minimise the potential cash flow interest rate risk for certain interest-bearing bank borrowings. The Group's interest rate profile as monitored by the management is set out below.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Interest rate risk (Continued)

The Group (Continued)

(i) Interest rate profile

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

The Group

	2012		2011	
	Effective interest rate	***HK$'000***	Effective interest rate	*HK$'000*
Fixed rate borrowings				
Bank borrowings	**5.13%**	**77,500**	5.65% to 5.87%	62,000
Variable rate borrowings				
Bank borrowings	**2.92%**	**11,260**	2.67% to 2.72%	34,033
Fixed rate borrowings as a percentage of total borrowings		**87%**		65%

(ii) Sensitivity analysis

At 31 December 2012, it is estimated that a general increase/decrease of 100 basis point in interest rate, with all other variables held constant, would increase/decrease the Group's loss for the year and accumulated losses by approximately HK$113,000 (2011: HK$340,000).

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Interest rate risk (Continued)

The Company

As the Company has no significant bank deposits and interest bearing liabilities, the management considers the risk is not significant.

(d) Foreign currency risk

The Group

The Group mainly operates in Hong Kong and the PRC. The functional currency of the Company and most of its subsidiaries are Hong Kong dollars and Renminbi, respectively, with certain of their business transactions being settled in United States dollars, Hong Kong dollars and Renminbi. The Group is thus exposed to currency risk arising from fluctuations on foreign currencies, primarily United States dollars, Hong Kong dollars and Renminbi, against the functional currency of the relevant group entities. The management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As Hong Kong dollars is pegged to United States dollars, the Group does not have material exchange rate risk on such currency.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. Differences resulting from the translation of the financial statements of the entity within the Group into the Group's presentation currency are excluded.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Foreign currency risk (Continued)

The Group (Continued)

(i) Exposure to currency risk (Continued)

	2012		2011	
	Hong Kong dollars	**Renminbi**	Hong Kong dollars	Renminbi
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Cash and cash equivalents	**6,594**	**30**	256	–
Interest-bearing bank borrowings	**(77,500)**	**–**	(62,000)	–
Other payables	**(301)**	**–**	(351)	–
Pledged bank deposits	**–**	**–**	–	31,613
Overall exposure to currency risk	**(71,207)**	**30**	(62,095)	31,613

(ii) Sensitivity analysis

The following table demonstrates the sensitivity at the end of reporting period to a reasonably possible change in the Renminbi exchange rate, with all other variables held constant, of the Group's loss for the year and accumulated losses.

	%	**Increase/ (decrease) in loss for the year and accumulated losses** ***HK$'000***
2012		
If Hong Kong dollars weakens against Renminbi	**5**	**(3,561)**
If Hong Kong dollars strengthens against Renminbi	**(5)**	**3,561**
2011		
If Hong Kong dollars weakens against Renminbi	5	(4,685)
If Hong Kong dollars strengthens against Renminbi	(5)	4,685

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' loss for the year and accumulated losses measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Foreign currency risk (Continued)

The Group (Continued)

(ii) Sensitivity analysis (Continued)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis was performed on the same basis for year 2011.

The Company

As the Company has no significant transaction in foreign currency, the management considers the Company's exposure to currency risk is insignificant.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities. All of these investments are listed.

The Group's listed investments are listed on the Stock Exchange. Decisions to buy and sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the index and other industry indicators, as well as the Group's liquidity needs.

If the price of the respective trading securities had been 10% higher/lower (2011: 10%), with all other variables held constant, loss for the year and accumulated losses would decrease/increase by approximately HK$15,106,000 (2011: HK$13,973,000). No effect on other components of equity for years 2012 and 2011.

The sensitivity analysis indicates the instantaneous change in the Group's loss for the year, accumulated losses and other components of consolidated equity that would arise assuming that the changes in the price of the respective trading securities had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's trading securities would change and with all other variables remain constant. The analysis was performed on the same basis for year 2011.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(f) Fair value measurements recognised in the consolidated statement of financial position

The Group

The following table provides an analysis of financial instruments that are measured at fair value at the end of reporting period, grouped into Level 1 to Level 3 based on the degree to which the fair value is observable.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
2012				
Financial assets at fair value through profit or loss				
– Trading securities	**151,067**	**–**	**–**	**151,067**
2011				
Financial assets at fair value through profit or loss				
– Currency options	–	782	–	782
– Interest rate swaps	–	61	–	61
– Trading securities	139,727	–	–	139,727
	139,727	843	–	140,570
Financial liabilities at fair value through profit or loss				
– Currency options	–	1,318	–	1,318

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(f) Fair value measurements recognised in the consolidated statement of financial position (Continued)

The Group (Continued)

Fair value of trading securities are determined based on the quoted market prices on regulated exchange markets.

During the years ended 31 December 2012 and 2011, there have been no significant transfers between Level 1 and 2.

(g) Estimation of fair values

The following summarises the major methods and assumptions applied in determining the fair values of the following financial instruments.

(i) Trading securities

Fair value for quoted trading securities are based on quoted market prices at the end of the reporting period without any deduction for transaction costs.

(ii) Foreign currency options and interest rate swaps

Foreign currency options are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the options. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

(iii) Interest-bearing bank borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

43. FACTORING OF FINANCIAL ASSETS

As part of its normal business, a subsidiary of the Group had entered into a trade receivable factoring arrangement and factored certain of its trade receivables to a bank. If the trade receivables would not be settled at maturity, the bank had the right to request the Group to pay the unsettled balance. As the Group had not transferred the significant risks and rewards to the bank relating to these trade receivables, it continued to recognise the full carrying amount of the receivables and had recognised the cash received from the factoring arrangement as a secured borrowing (see note 31).

At the end of the reporting period, the carrying amount of the trade receivables that had been factored but had not been derecognised amounted to HK$13,247,000 (2011: nil) and the carrying amount of the associated liability was HK$11,260,000 (2011: nil).

44. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

At the date of authorisation of these financial statements, certain new and revised HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[5]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12, and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKFRS 14	Regulatory Deferral Accounts[6]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HK(IFRIC) – Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine[2]
HK(IFRIC) – Interpretation 21	Levies[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle[7]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[4]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 32	Offsetting Finance Assets and Financial Liabilities[3]
Amendments to HKAS 36	Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets[3]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[3]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2015
6 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
7 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

45. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements are approved and authorised for issue by the Board on 31 March 2014.

Five Year Financial Summary

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

	Year ended 31 December				
RESULTS	**2012** ***HK$'000***	2011 *HK$'000*	2010 *HK$'000* (Restated)	2009 *HK$'000*	2008 *HK$'000*
Revenue	**453,236**	575,377	435,766	325,060	873,677
Cost of sales	**(419,696)**	(479,314)	(365,741)	(290,772)	(838,620)
Gross profit	**33,540**	96,063	70,025	34,288	35,057
Other revenue and other net income	**5,156**	8,660	8,841	6,803	11,681
Selling and distribution costs	**(21,224)**	(62,683)	(12,407)	(11,312)	(37,306)
Administrative expenses	**(73,322)**	(80,069)	(55,248)	(42,611)	(68,378)
Impairment loss of goodwill	**–**	(163,208)	(162,179)	–	–
Impairment loss of intangible assets	**–**	(88,341)	–	–	–
Net gain/(loss) on trading securities at fair value through profit or loss	**2,601**	(28,604)	–	–	–
Other operating expenses	**(2,854)**	(75,417)	(10,936)	(480)	(16,087)
Finance costs	**(5,825)**	(4,615)	(3,851)	(3,084)	(3,403)
Share of profits/(losses) of associates	**–**	–	–	–	(2,402)
Loss before taxation	**(61,928)**	(398,214)	(165,755)	(16,396)	(80,838)
Income tax	**(2,172)**	12,705	(7,963)	(1,381)	(3,436)
Loss for the year	**(64,100)**	(385,509)	(173,718)	(17,777)	(84,274)

	As at 31 December				
ASSETS AND LIABILITIES	**2012** ***HK$'000***	2011 *HK$'000*	2010 *HK$'000* (Restated)	2009 *HK$'000*	2008 *HK$'000*
Total assets	**581,159**	684,164	901,302	311,445	383,973
Total liabilities	**(215,111)**	(252,296)	(268,321)	(118,802)	(216,702)
Total equity	**366,048**	431,868	632,981	192,643	167,271