CHINA NEW ENERGY POWER GROUP LIMITED
中國新能源動力集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code：1041

ANNUAL REPORT 2011

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:
Mr. Zhang Xi *(Joint Chairman)*
Mr. Ip Cheng Kuong *(Joint Chairman)*
(appointed on 29 June 2011, retired on 5 August 2011 and re-appointed on 5 August 2011)
Mr. Fei Phillip *(Vice Chairman)*
(appointed on 29 June 2011, retired on 5 August 2011 and re-appointed on 5 August 2011)
Ms. Catherine Chen *(Managing Director)*
Mr. Yeung Tsoi San *(Chief Executive Officer)*
(appointed on 29 June 2011, retired on 5 August 2011 and re-appointed on 5 August 2011)
Mr. Chiu Kong
Mr. Yeung Kwok Yu
Mr. Kwan Kam Hung, Jimmy
Mr. Wah Wang Kei, Jackie
Mr. Lee Sun Man (passed away on 18 March 2011)
Mr. Chen Guang Lin
(appointed on 28 March 2011, retired on 2 June 2011 and re-appointed on 2 June 2011)

Independent Non-executive Directors:
Mr. Hong Po Kui, Martin (resigned on 29 June 2011)
Ms. Ma Yin Fan
Mr. Leung Hoi Ying
Mr. Yu Pan

BOARD COMMITTEES

Audit Committee
Ms. Ma Yin Fan *(Chairlady)*
Mr. Leung Hoi Ying
Mr. Yu Pan
Mr. Hong Po Kui, Martin (resigned on 29 June 2011)

Remuneration Committee
Ms. Ma Yin Fan *(Chairlady)*
Mr. Leung Hoi Ying
Mr. Yu Pan
Mr. Zhang Xi
Mr. Hong Po Kui, Martin (resigned on 29 June 2011)

Nomination Committee
Mr. Leung Hoi Ying *(Chairman)*
Mr. Yu Pan
Mr. Yeung Kwok Yu

COMPANY SECRETARY

Mr. Tang Kam Shing, Roland

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER

Messrs. Tung & Co.

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2807, 28th Floor
The Center
99 Queen's Road Central
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

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

STOCK CODE

1041

WEBSITE

www.cnepgl.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of China New Energy Power Group Limited (the "Company"), I am pleased to present the financial results of the Company and its subsidiaries (collectively referred as the "Group") for the financial year ended 31 December 2011.

RESULTS

The audited consolidated profit for the year of the Group attributable to owners of the Company was approximately HK$102,611,000. Basic earnings per share from investment in securities and property development ("continuing operations") based on the weighted average number of 4,564,292,883 shares in issue amounted to HK 2.25 cents (2010: loss per share HK 22.27 cents).

REVIEW OF FINANCIAL RESULTS

For the year ended 31 December 2011, the Group's revenue from the continuing and discontinued operations decreased to approximately HK$76,681,000 from approximately HK$119,522,000 in last year.

Net gain in the fair value on derivative financial instruments through profit or loss reflected a profit of approximately HK$235,964,000. Because of this, the Group recorded a profit of approximately HK$30,656,000 in the financial year ended 31 December 2011.

Profit for the year attributable to owners of the Company amounted to approximately HK$60,886,000, representing a turnaround from the loss of approximately HK$783,381,000 in last year.

BUSINESS REVIEW

During the year under review, the unstable global economy and restricted monetary austerity measures imposed on the property market caused continued shrinkage in demand for the wooden products of the Group. The skim of earning in the Group's timber business was further eroded by the rising domestic labour costs and material costs, the timber business of the Group recorded a loss of HK$90,306,000 for the year.

In view that the Group's timber business has suffered losses for many years and its performance has not been promising, the Board decided to dispose of the Group's timber operations before end of the year to prevent the Group from incurring further loss in this business operation.

Although the property sector in the People's Republic of China ("PRC") experienced a challenging year in 2011, the property development project of the Group was still in the preliminary development stage and was not materially affected by the restrictive measures implemented by the PRC government.

CHAIRMAN'S STATEMENT

FUTURE PLANS AND PROSPECTS

For property development business, the Board expects that, inspite of the sustained impact from the austerity measures in the PRC, market demand for housing driven by the domestic economic growth is still strong. The Group remains prudent and positive view towards the prospects of property development business in the PRC.

In the year 2011, the Company announced its proposed diversification of businesses into the new energy vehicles business through the acquisition of the Lithium Energy Group Ltd. (the "LEG"). Upon the completion of the acquisition, the Group will, through LEG, be engaged in the research and manufacturing of lithium-ion battery, production of power motor and controller, and research and manufacturing of vehicle electronics and controller system. The Board consider that the acquisition of LEG is a valuable opportunity for the Group to get foothold in the lithium and electric vehicles industry.

The Group will continue to dedicate its efforts to the development of its existing businesses and other high potential projects in the PRC with a view to providing steady returns as well as fruitful growth for its shareholders.

APPRECIATION

On behalf of the Board, my sincere thank to our loyal shareholders, suppliers and customers for their continuous support to the Group. I would also extend my gratitude and appreciation to our management and all staff for their hard works and dedication throughout the year.

On behalf of the Board,

Zhang Xi
Joint Chairman
Hong Kong, 28 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2011, the Group's revenue from continuing and discontinued operations was approximately HK$76.68 million (2010: approximately HK$119.52 million), representing a drop of 35.84% as compared with last year's figure. The decrease was mainly due to the fall in revenue in the timber business and no revenue was recorded from the food processing and distribution business after it was disposed of by the Group in 2010.

Segmental Results

During the reporting year, investment in securities and property development remained business operations of the Group, while the timber business was discontinued and was disposed of on 29 December 2011.

Continuing businesses

Property development business

No revenue was generated from the operation of property development for the current year (2010: Nil) and its segmental result suffered a loss of approximately HK$7.93 million (2010: a loss of approximately HK$3.96 million).

Investment in securities business

The revenue generated from the operation of investment in securities for the current year was approximately HK$0.13 million (2010: Nil) and its segmental result suffered a loss of approximately HK$36.31 million (2010: a loss of approximately HK$8.86 million).

Discontinued businesses

Timber business

The turnover of the timber business for the year decreased to approximately HK$76.56 million from approximately HK$101.89 million in last year, representing a drop of approximately 24.86%. The segment result of the timber business had been worsen to a loss of approximately HK$86.32 million from a profit of approximately HK$5.83 million in 2010.

Food processing and distribution business

The food processing and distribution business has already been discontinued in the year 2010. Accordingly, no revenue was recorded from the food processing and distribution business in the current year (2010: approximately HK$17.64 million) and no segment result was recorded from the food processing and distribution business in the year ended 31 December 2011 (2010: a loss of approximately HK$0.78 million).

Cost of Sales

The Group's cost of sales for the reporting year from continuing and discontinued operations increased to approximately HK$116.45 million from approximately HK$113.07 million in last year. Allowance for obsolete inventories of approximately HK$39.74 million (2010: Nil) and loss of stock of approximately HK$1.72 million (2010: Nil) due to outbreak of fire were the major factors for the increase in costs in the current year.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Loss

The Group recorded a gross loss of approximately HK$39.77 million during the current year (2010: gross profit of approximately HK$6.45 million).

Other Income

The Group's other income for the reporting year from continuing and discontinued operations decreased to approximately HK$6.94 million from approximately HK$12.75 million in 2010. The main reason for such decrease was that no VAT refund were received during the reporting year (2010: approximately HK$6.67 million).

Other Gains and Losses

Other gains of the Group amounted to approximately HK$199.53 million for the reporting year (2010: loss of approximately HK$703.22 million). The significant gain mainly consisted of the net gain on fair value change of derivative financial instruments of approximately HK$235.96 million (2010: loss of approximately HK$731.67 million) off-setting against the net loss on held-for-trading investments of approximately HK$36.44 million (2010: approximately HK$8.86 million).

Selling and Distribution Costs

The Group's selling and distribution costs for the reporting year from continuing and discontinued operations decreased to approximately HK$6.51 million from approximately HK$8.72 million in 2010. Such decrease was due to the drop in revenue in the current year.

During the reporting year, all the selling and distribution costs of the Group were incurred from its timber business.

Administrative Expenses

The Group's administrative expenses for the reporting year from continuing and discontinued operations decreased to approximately HK$61.04 million from approximately HK$63.88 million in the 2010.

Other Expenses

During the year, the Group incurred other expenses from continuing and discontinued operations amounting to approximately HK$47.20 million. This consisted of project management fee of approximately HK$23.00 million paid in connection with a property development project in Xi'an city, PRC (the "Site"); allowance for bad and doubtful debt of approximately HK$21.41 million; and writing off of unrecoverable deposits and prepayments of approximately HK$2.79 million.

Finance Costs

The Group's finance costs from continuing and discontinued operations for the reporting year increased to approximately HK$42.77 million from approximately HK$30.07 million in 2010, representing an increase of 42.23%. This consisted mainly of the effective interests expenses on the outstanding convertible notes of approximately HK$39.73 million (2010: approximately HK$25.18 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Profit/(Loss) for the Year and Profit/(Loss) Per Share

The Group's profit attributable to owners of the Company for the reporting year was approximately HK$60.89 million whereas the Group's loss attributable to owners of the Company was approximately HK$783.38 million in the year 2010. The turnaround from loss to profit in the reporting year was mainly due to the net gain on fair value change of the derivative financial instruments. Basic profit per share from the continuing operations of the Group was HK2.25 cents per share for the year ended 31 December 2011 whereas the basic loss per share was HK22.27 cents per share for the previous year. Meanwhile, diluted loss per share was HK1.10 cents per share for the reporting year (2010: loss of HK24.28 cents per share).

BUSINESS REVIEW

In the year of 2011, the PRC government put an end to the easing of monetary policy and launched a more stabilizing measure. The People's Bank of China had increased the interest rates for three times and raised the bank reserve requirement ratio for six times during the year.

Furthermore the austerity measures launched in 2010 to stabilize the property market were upgraded and deeply implemented in the year 2011, with the property price control targets were set in over 100 cities and Home Purchase Restriction were launched in 50 mid-to-big cities. Under these kinds of restrictions and the increase of minimum down payment ratio required for people who purchase their second houses in all major cities, liquidity in the property market was completely stalled. The Group's timber business was severely dampened under the suppressed property development industries during the year.

Having carefully reviewed the Group's timber business in light of the weakened demand for its products and the rising production costs, the Board decided to dispose of the timber business of the Group and entered into a sale and purchase agreement to sell the Company's entire interests in Wood Art Group (as defined hereafter) on 18 November 2011.

Property Development Business

Although the property market in the PRC was so challenging in the year 2011, the property development project of the Group was still in the preliminary development stage. Those restrictive measures implemented by the PRC government did not have a material impact on our Group.

According to the existing development plan, the Group will develop the Site as an area which consists of luxury residential buildings and commercial buildings by several phases.

Since it is still in a preliminary stage of developing the Site, the Group did not record any revenue from its property development business for the reporting year (2010: Nil) but a loss of approximately HK$7.93 million was incurred in the current year (2010: approximately HK$3.96 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Investment in Securities Business

The revenue generated from the operation of investment in securities for the current year mainly consisted of dividend income received from held-for-trading securities. Its segment loss was suffered from the loss on change in fair value of held-for-trading investments.

Timber Business

As mentioned above, the management of the Group decided to dispose of its entire equity interests in Wood Art International Corporation and its subsidiaries (the "Disposal Group" or the "Wood Art Group") in late 2011 (the "Disposal"). The Disposal Group was responsible for all timber operations of the Group. The Disposal was completed on 29 December 2011.

During the period from 1 January 2011 to 29 December 2011, a loss of approximately HK$90.31 million (1.1.2010 – 31.12.2010: a loss of approximately HK$0.41 million) was suffered from the timber business, loss for the period attributable to shareholders of the Company was approximately HK$63.20 million (1.1.2010 – 31.12.2010: approximately HK$0.46 million). Gain on disposal of approximately HK$21.48 million was recorded upon the completion of the Disposal.

FUTURE PROSPECTS

Despite the unfavorable impact arising from the eurozone sovereign debt crisis and global economic uncertainty, the Chinese economy maintained resilient and reported steady GDP growth in the year 2011.

The austerity measures are gradually taking positive effect on the economy as the latest CPI figures are showing good sign of control of inflation in the PRC. Moreover, signals of stabilization of measures in the property sector, including banks extending favorable mortgage rate to first time home buyers in early 2012 and the two cuts in the bank reserve requirement ratio since November 2011, may gradually improve the overall liquidity. We believe that in the long run, the property sector will continue to benefit from the increase in domestic consumption power as well as the genuine housing demand driven by improving living conditions in the PRC.

With the continuing improvement and expansion of the metro network, the North station of the Express Rail Link in Xi'an City, the PRC, which is located near the Site allows the Group's project to benefit from the improved public transportation in the future. The Group will closely monitor the development of any policies and measures that will be introduced by the PRC Government in order to take necessary actions to reduce any unexpected downside effects as well as to take advantage of any favourable measures.

The Group will continue to dedicate its efforts to the development of its existing businesses and other high potential projects in the PRC with a view to providing steady returns as well as fruitful growth for its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

On 13 January 2011, Fulbond Investments Limited (the "Purchaser"), a wholly owned subsidiary of the Company, and Hefu Limited (the "Vendor"), an independent third party, entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Purchaser conditionally agreed to acquire (the "Acquisition") an aggregate of 50,000 shares of US$1.00 each in the share capital of LEG, which represents its entire issued share capital, and the shareholder's loan due and owing to the Vendor by the Target Company as at the date of completion of the Acquisition at a consideration ("Consideration") of HK$900 million.

Pursuant to the Acquisition Agreement, the Vendor has guaranteed to the Group that the audited consolidated net profit after taxation and minority interest but before non-recurring income and extraordinary income and non-operating income of the LEG and its subsidiaries (the "Target Group") for the financial year of the completion date of the Acquisition and the four financial years immediately thereafter will not be less than HK$1.12 billion.

Details of the Acquisition were set out in the circular of the Company dated 25 May 2011 (the "Circular"). The Group believes that the Acquisition not only widens the Group's revenue streams but also enables the Group to participate in a potentially high growth industry advocated by the PRC Government.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2011, the Group's bank balances and cash was approximately HK$30.23 million (2010: approximately HK$143.49 million), representing a decrease of 78.93%. The bank and other borrowings as at 31 December 2011 amounted to approximately HK$1.52 million (2010: approximately HK$79.99 million), representing a decrease of 98.10%.

As at 31 December 2011, the current ratio (current assets/current liabilities) was 1.00 times (2010: 5.15 times) and the net current liabilities amounted to approximately HK$2.68 million (2010: net current assets of approximately HK$734.80 million). The major factor for the change was the classification of convertible notes of approximately HK$595.80 million (2010: approximately HK$792.03 million) from non-current liabilities to current liabilities during the reporting year.

During the current year, net cash used in operating activities was approximately HK$129.60 million (2010: approximately HK$181.79 million). The net cash used in investing activities was approximately HK$4.63 million (2010: approximately HK$309.79 million). The net cash generated from financing activities was approximately HK$18.35 million (2010: approximately HK$396.73 million), which mainly consisted of advance from minority shareholders of subsidiaries. As a result, the net decrease in cash and cash equivalents during the year was approximately HK$115.87 million (2010: approximately HK$94.84 million).

No Issue, Redemption and Conversion of Convertible Notes

There was no issue, redemption and conversion of convertible notes during the reporting year. All operations of the Group were financed by funds generated internally.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL DISPOSAL OF SUBSIDIARIES

The Disposal was approved by the shareholders of the Company and completed on 29 December 2011. Upon completion of the Disposal, the Disposal Group has ceased to be subsidiaries of the Company. The consideration in the sum of HK$100,000 was received on the same day as the date of completion of the Disposal.

VERY SUBSTANTIAL ACQUISITION AND PLACING ARRANGEMENTS

The Purchaser and the Vendor had entered into the Acquisition Agreement on 13 January 2011, pursuant to which the Purchaser conditionally agreed to acquire the entire issued share capital of the LEG, and the shareholder's loan at the Consideration of HK$900 million of which (i) HK$370 million shall be paid by the Purchaser in cash to the Vendor and (ii) HK$530 million shall be paid by way of allotment and issue of shares of the Company as consideration shares to the Vendor in 5 stages in the manner set out in the sub-section headed "Consideration" under the section headed "The Acquisition Agreement" of the Circular.

LEG holds 100% of the issued share capital of China Lithium Electric Vehicle Group (Hong Kong) Limited ("Lithium HK"). Upon completion of reorganization, Lithium HK will hold approximately 100% equity interests in a group of PRC companies (the "LEG Group") which engaged in the research and manufacturing of Lithium-ion battery, production of power motor and controller, and research and manufacturing of vehicle electronics and controller system.

Pursuant to the Acquisition Agreement, the Vendor has guaranteed to the Group that the audited consolidated net profit of LEG Group for the financial year of the completion date of the Acquisition and the four financial years immediately following will not be less than HK$1.12 billion (the "Profit Target"). In the event that the Profit Target cannot be achieved, the Consideration will be adjusted according to the terms of the Acquisition Agreement in the manner set out in the sub-section headed "Consideration Adjustment and Changes" under the section headed "The Acquisition Agreement" of the Circular.

The latest time for fulfillment of the conditions under the Acquisition Agreement is extended to 30 April 2012. As at the date hereof, certain conditions are yet to be fulfilled while the proposed Acquisition is still in progress.

Share Placing

On 13 January 2011, the Company entered into a placing agreement, with each of Kingston Securities Limited ("Kingston") and Guangdong Securities Limited (collectively, the "Placing Agents") respectively as placing agents (the "Share Placing Agreements"), pursuant to which, the Placing Agents conditionally agreed with the Company to place, on a best effort basis, an aggregate of 8,823,000,000 new shares (the "Reorganised Shares") after the capital reorganisation (the "Capital Reorganisation") (the "Placing"). The estimated net proceeds from the Placing will be approximately HK$1.48 billion. The Group intends to apply the net proceeds arising from the Placing to satisfy (i) the Consideration in respect of the Acquisition; (ii) provide general working capital for the Group and/or as funds for the Group's future investment opportunities; and (iii) for the future development of the LEG Group. The Share Placing Agreements lapse on 31 March 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

CN Placing

On 13 January 2011, the Company entered into a placing agreement (the "CN Placing Agreement") with Kingston, pursuant to which, Kingston conditionally agreed to place, on a best effort basis, convertible notes with a maximum aggregate principal amount of HK$500 million ("CN Placing") which carry a right to convert into shares of the Company at a conversion price of HK$0.17 per Reorganised Share (subject to adjustment). The Group intends to apply the net proceeds obtained from the CN Placing for the future development of the LEG Group and/or as funds for future investment opportunities of the Group. The CN Placing Agreement lapse on 31 March 2012.

CHANGE OF COMPANY NAME AND STOCK SHORT NAME

The change of the Company's name was approved at the special general meeting held on 5 August 2011. The Company has taken steps to change its English name from "Fulbond Holdings Limited" to "China New Energy Power Group Limited" and adopt "中國新能源動力集團有限公司" as its Chinese secondary name in place of "福邦控股有限公司" for identification purpose only. The change of the Company's name can better reflect the Company's new future business direction, while highlighting its new business strategies in the development of lithium-ion battery and electric vehicles.

On 11 August 2011, the Certificate of Incorporation on Change of Name and the Certificate of Secondary Name were issued by the Registrar of Companies in Bermuda, certifying that the Company has changed its name as "China New Energy Power Group Limited" with "中國新能源動力集團有限公司" as its Chinese secondary name on 5 August 2011. On 14 September 2011, the Registrar of Companies in Hong Kong issued the Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company to the Company.

The Company announced on 23 September 2011 that the change of its company name become effective since 5 August 2011 and the stock short name of the shares of the Company for trading on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") would be changed from "FULBOND HOLDING" to "CH NEW ENGY PWR" in English and from "福邦控股" to "中國新能源動力" and with effective from 9:00 a.m. on 28 September 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The special resolution approving the Capital Reorganisation was passed at the special general meeting of the Company held on 21 June 2011. The Capital Reorganisation involved the following:

i) Share consolidation ("Share Consolidation")	every 10 shares of US$0.001 each in the issued share capital of the Company prior to Capital Reorganisation were consolidated into one share of par value US$0.01 each ("Consolidated Share")
ii) Capital reduction ("Capital Reduction")	upon the Share Consolidation becoming effective, the par value of each issued Consolidated Share was reduced from US$0.01 to US$0.001 by cancellation of US$0.009 of the paid-up capital of each issued Consolidated Share
iii) Share premium reduction	upon the Share Consolidation and the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company as at the date of the Capital Reorganisation become effective was reduced and cancelled.

During the reporting year, holders of share options under the share option scheme of the Company adopted on 19 November 2001 (as amended by an addendum effective on 22 February 2011) ("Share Option Scheme") exercised their rights to subscribe for 2,568 ordinary shares in the Company at a subscription price of HK$0.041 per share. After the issuance of shares according to the Share Option Scheme, the number of the Company's issued shares became 45,642,930,000 shares before the Capital Reorganisation become effective.

On 22 June 2011, the Capital Reorganisation became effective and the number of the Company's issued shares became 4,564,293,000 shares.

As at 31 December 2011, the Group's gearing ratio calculated on the basis of convertible notes, bank and other borrowings of approximately HK$597.32 million (2010: approximately HK$872.02 million) and total assets of approximately HK$692.66 million (2010: approximately HK$920.53 million), was 46.30% (2010: 48.65%).

MATERIAL CONTINGENT LIABILITIES

The Group is not aware of any material contingent liabilities as at 31 December 2011.

PLEDGE OF ASSETS

At the end of the reporting year, the Group had not pledged any assets, whereas, at end of last year, the Group had pledged certain properties, plants and equipments of the Group with aggregate carrying amounts of approximately HK$9.35 million to various banks to secure the bank loans and general credit facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

There have been no significant changes in the Group's policy in terms of exchange rate exposure. The Group operates mainly in Hong Kong and the PRC. Most of the transactions are denominated in Hong Kong dollars ("HKD"), Renminbi ("RMB") and United States dollars ("USD"). The Group is exposed to foreign currency risk primarily through sales that are denominated in United States dollars. The exchange rate of USD against HKD is relatively stable and the related foreign currency risk is considered to be insignificant. The Group currently does not have a foreign currency hedging policy. However, the management continuously monitors the Group's foreign exchange risk exposure and will consider to hedge significant currency risk exposure should the need arise.

EMPLOYEES AND REMUNERATION POLICIES

As of 31 December 2011, the Group had approximately 60 full time management, administrative and operation staff in the PRC and Hong Kong.

The Group provides competitive remuneration packages with attractive discretionary bonus to employees. The Group regularly reviews its remuneration packages in light of the overall development of the Group as well as the market conditions. In addition, the Group has adopted the Share Option Scheme for eligible employees (including Directors) to provide incentives to those with outstanding performance and contribution to the Group.

CHANGE OF DIRECTORSHIP

On 18 March 2011, Mr. Lee Sun Man passed away. On 28 March 2011, Mr. Chen Guang Lin ("Mr. Chen") was appointed as an executive director of the Company. Mr. Chen resigned on 2 June 2011 and was re-appointed on the same day.

On 29 June 2011, Mr. Ip Cheng Kuong ("Mr. Ip"), Mr. Fei Phillip ("Mr. Fei") and Mr. Yeung Tsoi San ("Mr. Yeung") were appointed as an executive director and joint chairman, an executive director and vice chairman, and an executive director and chief executive officer of the Company respectively.

On 5 August 2011, Mr. Ip, Mr. Fei and Mr. Yeung resigned and were re-appointed as executive directors of the Company on the same day.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR EXECUTIVES

Biographical details of the Directors and senior executives are set out as follows:

EXECUTIVE DIRECTORS

Mr. Zhang Xi ("Mr. Zhang"), aged 43, is the Group's joint chairman. Mr. Zhang joined us in December 2006. He obtained a bachelor degree in economics from the University of Xiamen, PRC in 1990. He has extensive experience in private equity investments in the PRC. Mr. Zhang set up Great Time Holdings Limited in Hong Kong in 1999, the principal business of which includes investments in a mechanical electrical engineering company in Fuzhou, China, which is engaged in manufacturing of power machine equipment, electrical equipment, food processing equipment, the design and process of the relevant components and after-sale services and in a high technology company in Beijing, which is engaged in research, development and manufacturing of smart construction materials.

Mr. Ip Cheng Kuong ("Mr. Ip"), aged 72, is the joint chairman of the Company. Mr. Ip joined us in June 2011. Mr. Ip graduated from PLA Military Engineering Institute in Harbin and is a spationautics expert in Chinese aerospace industry. Mr. Ip is the founder of 六合天融(北京)環保科技有限公司 (an affiliate of China Energy Conservation and Environment Protection Group, which is a state owned enterprise in the PRC), and currently serves as its vice chairman. He is concurrently the beneficial controlling shareholder and the chairman of Liuhe EPES Group. Mr. Ip is also the beneficial controlling shareholder and the chairman of Global Zone International Limited, a company which holds 6.51% equity interest in the Company.

Mr. Fei Philip ("Mr. Fei"), aged 56, is the vice chairman of the Company. Mr. Fei joined us in June 2011. Mr. Fei was a professor of the International Economic Department of University of International Relations, Beijing. Currently, he serves as a director of China Overseas Friendship Association, a director of China Council for the Promotion of Peaceful National Reunification and a director of Beijing Overseas Friendship Association. Mr. Fei has over 10 years of experience in the international trading business and economic research. Mr. Fei is the executive president of Lithium Group, responsible for the promotion and marketing of the brand of Lithium Group in the PRC and Hong Kong and Macau in order to enhance brand awareness and introduction of both domestic and international experts to Lithium Group in exploring electric passenger vehicles related technologies. As disclosed in the Circular, Mr. Fei is a 3% shareholder and a director of the Vendor, a company which will receive Consideration Shares pursuant to the Acquisition Agreement.

Ms. Catherine Chen ("Ms. Chen"), aged 52, is the managing director of the Group. Ms. Chen joined us in December 2006. She has extensive experience in project investment, marketing research and the provision of consultancy services in relation to businesses of foreign enterprises in the PRC. She obtained a master of business administration (marketing) degree from The University of Liverpool in 2001.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR EXECUTIVES

Mr. Yeung Tsoi San ("Mr. Yeung"), aged 59, is the chief executive officer of the Company. Mr. Yeung joined us in June 2011. Mr. Yeung was a postgraduate of Shenzhen University, majoring in economic management. He is a well-known businessman in the PRC who had participated in a number of cross border merger and acquisition transaction in the PRC and engaged in investment in theme park, fast moving consumer goods industry and securities from 1992 to 2002. Mr. Yeung has been the vice president of Football Association of Guangdong Province, the PRC since 2007.

Mr. Chiu Kong ("Mr. Chiu"), aged 54, joined us in July 2010. Mr. Chiu has over 15 years of experience in import and export trading and business development. He was an executive director of CST Mining Group Limited ("CST") for the period from 6 June 2002 to 25 June 2010, of which shares are listed on the main board of the Stock Exchange. Mr. Chiu is the brother-in-law of Mr. Yeung Kwok Yu, an executive Director of the Company.

Mr. Yeung Kwok Yu ("Mr. Yeung"), aged 60, joined us in July 2009. Mr. Yeung had held management positions in trading companies which were based in the PRC and Hong Kong. He was also engaged as senior management in various listed companies in Hong Kong. Mr. Yeung has extensive experience in general trading, strategic investment planning and business development. Mr. Yeung is currently an executive director of CST, of which shares are listed on the main board of the Stock Exchange. Mr. Yeung is the brother-in-law of Mr. Chiu, an executive Director of the Company.

Mr. Kwan Kam Hung, Jimmy ("Mr. Kwan"), aged 50, joined the Company in November 2009. He has been engaged as a senior manager with various listed companies in Hong Kong. Mr. Kwan has over 15 years of experience in the fields of finance and accounting and corporate management. Mr. Kwan is currently an executive director of CST and G-Resources Group Limited ("G-Resources"), companies whose shares are listed on the main board of the Stock Exchange.

Mr. Wah Wang Kei, Jackie ("Mr. Wah"), aged 45, joined us in November 2009. Mr. Wah graduated from The University of Hong Kong in 1990. He is a practising solicitor in Hong Kong and was qualified as a solicitor in 1992. Up until 1997, Mr. Wah was a partner of a Hong Kong law firm. Mr. Wah is currently an executive director of CST and G-Resources, of which shares are listed on the main board of the Stock Exchange.

Mr. Chen Guang Lin ("Mr. Chen"), aged 40, was appointed as an executive Director of the Company on 28 March 2011. He is currently a general manager of an enterprise in the PRC. Mr. Chen has extensive experience in operating and managing enterprises in the PRC. In addition, Mr. Chen has acquainted himself with matters such as administration, management and tax issues in PRC enterprises. He is also familiar with the operation, management and operating environments in the PRC.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR EXECUTIVES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Ma Yin Fan ("Ms. Ma"), aged 48, joined us in August 2009. She obtained a bachelor's degree with honours in accountancy at Middlesex University in the United Kingdom. She also holds an MBA and Master in Professional Accounting degree from Heriot-Watt University in the United Kingdom and Hong Kong Polytechnic University, respectively. Ms. Ma is a CPA (Practising) in Hong Kong and has been working in the auditing, accounting and taxation for more than 20 years. She is the principal of Messrs. Ma Yin Fan & Company CPAs. Ms. Ma is a fellow member of each of the Hong Kong Institute of Certified Public Accountants, Taxation Institute of Hong Kong, Association of Chartered Certified Accountants, Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators. She is also an associate member of the Institute of Chartered Accountant in the England and Wales and a Certified Tax Advisor in Hong Kong. Ms Ma is currently an independent non-executive director of China Strategic Holdings Limited ("China Strategic") and G-Resources, companies whose shares are listed on the main board of the Stock Exchange.

Mr. Leung Hoi Ying ("Mr. Leung"), aged 61, joined us in August 2009. He graduated from Guangdong Foreign Trade School in PRC. He has over 30 years of experience in the international trading and business development. Mr. Leung is currently an independent non-executive director of China Strategic and G-Resources, companies whose shares are listed on the main board of the Stock Exchange.

Mr. Yu Pan ("Mr. Yu"), aged 57, joined us in August 2009. He has over 20 years of experience in management positions of multinational trading companies in Hong Kong and the Mainland China. Mr. Yu is currently an independent non-executive director of CST, of which shares are listed on the main board of the Stock Exchange.

SENIOR EXECUTIVES

Mr. Tang Kam Shing ("Mr. Tang"), is the company secretary and the group financial controller of the Group. Mr Tang joined the Group in May 2010. He graduated with a bachelor (honour) degree in Accountancy and a master degree in Corporate Governance from the Hong Kong Polytechnic University. Mr. Tang is an associate member of The Hong Kong Institute of Certified Public Accountants and fellow member of The Association of International Accountants. He is also an associate member of The Hong Kong Institute of Chartered Secretaries, The Institute of Chartered Secretaries and Administrators, and The Taxation Institute of Hong Kong. He is a Certified Tax Adviser in Hong Kong. Mr Tang has over 15 years of experience in finance, accounting, auditing and taxation. Prior to joining the Group, Mr. Tang had been the senior finance executive of several listed group of companies and multinational companies in Hong Kong.

Ms. Lai Ngai Ping ("Ms. Lai"), is the group finance manager of the Group and joined the Group in June 2008. She holds a bachelor of administration degree from the University of Regina in Canada, majoring in finance and accountancy. She is an associate member of the Hong Kong Institute of Certified Public Accountants as well as The Taxation Institute of Hong Kong. She is also a Certified Tax Adviser in Hong Kong. Ms. Lai has over 10 years' experience in accounting, taxation and financial management.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance of the Company is crucial to safeguard the interests of the Shareholders and to enhance the performance of the Group. The Board and management of the Company are committed to enhancing corporate governance standard, in compliance with the principles set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Company has, throughout the year, complied with the relevant provisions of the Code, save for the deviation disclosed below.

This report summarises the Company's corporate governance practices and structures that were in place during the financial year.

1. THE BOARD

The Directors, individually and collectively, are committed to act in good faith in the best interests of the Company and its shareholders. As at the date of this report, the Board comprised ten executive Directors and three independent non-executive Directors.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholders value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in the annual and interim reports, and of other price-sensitive announcements and accounting policies, and reports to regulators any information required to be disclosed pursuant to the relevant statutory requirements.

The Board has fiduciary duty and statutory responsibility towards the Company and the Group. Other responsibilities include, formulation of the Group's overall strategy and policies, setting corporate and management targets and key operational initiatives, monitoring and control of operational and financial performance, and approval of budgets and major capital expenditures, major investments, material acquisitions and disposals of assets, corporate or financial restructuring, significant operational, financial and management matters.

The Board delegates day-to-day management of the business of the Group to the management of the relevant principal subsidiaries and certain specific responsibilities to audit committee, remuneration committee and nomination committee. The composition and functions of each committee are described below. These committees have specific functions and authority to examine issues and report to the Board with their recommendations (if appropriate). The final decision rests with the Board, unless otherwise provided for in the terms of reference of the relevant committee.

CORPORATE GOVERNANCE REPORT

1. THE BOARD (CONTINUED)

The company secretary of the Company ("Company Secretary") provides the Directors with updates on developments regarding the Listing Rules and other applicable regulatory requirements. Any Director may request the Company Secretary to arrange for independent professional advice at the expense of the Company to assist the Directors to effectively discharge their duties to the Company.

The independent non-executive Directors of the Company serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Each of the independent non-executive Directors provides an annual confirmation of his independence to the Company. The Board considers that each of the independent non-executive Directors is independent in character and judgment and that they all meet the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

All Directors have access to the advice and services of the Company Secretary in respect of compliance with board procedures, and all applicable rules and regulations. All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent advice where necessary at the expense of the Company in discharging of their duties to the Company.

The Board meets at least four times each year to review the overall strategy and to monitor the operation as well as the financial performance of the Group. Additional meetings may be convened to approve any notifiable transaction and shares issuance. Notice of at least fourteen days is served for regular board meetings. Reasonable notice would be given for all other special board meetings which are not held regularly. The Joint Chairmen of the Board are primarily responsible for drawing up and approving the agenda for each board meetings in consultation with all Directors and ensure that all Directors are properly briefed on issues arising at board meetings. Agenda and accompanying board papers in respect of board meetings are sent out in full to all Directors within a reasonable time before the date of every board meetings to allow them to review these documents in advance. Minutes of all board meetings, and meetings of the remuneration committee and the audit committee are kept by the Company Secretary and the Directors may inspect these minutes at any time during office hours upon giving reasonable notice. Minutes of all board meetings, and meetings of the remuneration committee and the audit committee, have recorded in sufficient detail the matters considered by the Board and the board committees, including any concerns raised by Directors or dissenting view expressed. Draft and final versions of these minutes were sent to all Directors for their comment and records respectively, normally within 10 days after the relevant meeting was held.

CORPORATE GOVERNANCE REPORT

1. THE BOARD (CONTINUED)

The following is an attendance record of the Board meetings held by the Board during the year:

Name of Board member	Number of meetings attended	Attendance Rate
Executive Directors		
Mr. Zhang Xi	25/29	86%
Ms. Catherine Chen	28/29	97%
Mr. Chiu Kong	21/29	72%
Mr. Yeung Kwok Yu	28/29	97%
Mr. Lee Sun Man (passed away on 18 March 2011)	0/4	0
Mr. Kwan Kam Hung, Jimmy	23/29	79%
Mr. Wah Wang Kei, Jackie	22/29	76%
Mr. Chen Guang Lin (appointed on 28 March 2011, retired on 2 June 2011 and re-appointed on 2 June 2011)	15/22	68%
Mr. Ip Cheng Kuong (appointed on 29 June 2011, retired on 5 August 2011 and re-appointed on 5 August 2011)	13/14	93%
Mr. Fei Phillip (appointed on 29 June 2011, retired on 5 August 2011 and re-appointed on 5 August 2011)	12/14	86%
Mr. Yeung Tsoi San (appointed on 29 June 2011, retired on 5 August 2011 and re-appointed on 5 August 2011)	12/14	86%
Independent Non-executive Directors		
Mr. Hong Po Kui, Martin (resigned on 29 June 2011)	13/16	81%
Mr. Yu Pan	23/29	79%
Ms. Ma Yin Fan	27/29	93%
Mr. Leung Hoi Ying	21/29	72%

The Directors acknowledge that they are responsible for preparing accounts for each financial period on a going concern basis, with supporting assumptions or qualification as necessary.

CORPORATE GOVERNANCE REPORT

2. CHAIRMAN AND MANAGING DIRECTOR

Prior to 29 June 2011, Mr. Zhang Xi was the Chairman of the Company ("Chairman") and Ms. Catherine Chen was the managing director of the Company ("Managing Director"). Under Code Provision ("Code Provision") A.2.1 of the Code as set out in appendix 14 of the Listing Rules, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual. However, the Company had not named any officer with the title of "Chief Executive Officer" prior to 29 June 2011. Nevertheless, Ms. Catherine Chen assumed the position of "Chief Executive Officer" and was responsible for managing and smoothing the business operations of the Group while the Chairman is responsible for leading the Board in the overall strategic development of the Group.

On 29 June 2011, Mr. Yeung Tsoi San was appointed as an executive Director and the Chief Executive Officer of the Company. The Joint Chairmen and the Chief Executive Officer are separate individuals with segregated roles and have no relationship with each other. The Board believes that there is an effective segregation of duties between the Joint Chairmen and the Chief Executive Officer.

3. BOARD COMPOSITION

The Board currently comprises the following ten executive Directors and three independent non-executive Directors:

Executive Directors

Mr. Zhang Xi *(Joint Chairman)*	
Mr. Ip Cheng Kuong *(Joint Chairman)*	(appointed on 29 June 2011, retired on 5 August 2011 and re-appointed on 5 August 2011)
Mr. Fei Phillip *(Vice Chairman)*	(appointed on 29 June 2011, retired on 5 August 2011 and re-appointed on 5 August 2011)
Ms. Catherine Chen *(Managing Director)*	
Mr. Yeung Tsoi San *(Chief Executive Officer)*	(appointed on 29 June 2011, retired on 5 August 2011 and re-appointed on 5 August 2011)
Mr. Chiu Kong	
Mr. Yeung Kwok Yu	
Mr. Kwan Kam Hung, Jimmy	
Mr. Wah Wang Kei, Jackie	
Mr. Lee Sun Man	(passed away on 18 March 2011)
Mr. Chen Guang Lin	(appointed on 28 March 2011, retired on 2 June 2011 and re-appointed on 2 June 2011)

Independent Non-executive Directors

Mr. Hong Po Kui, Martin	(resigned on 29 June 2011)
Ms. Ma Yin Fan	
Mr. Leung Hoi Ying	
Mr. Yu Pan	

CORPORATE GOVERNANCE REPORT

3. BOARD COMPOSITION (CONTINUED)

All independent non-executive Directors are expressly identified as such in all of the Company's corporate communications that disclose the names of Directors.

4. APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Bye-laws, any new Director appointed by the Board, whether to fill a casual vacancy or as an addition to the existing Board, is subject to retirement and re-election by shareholders at the next following general meeting of the Company following his appointment. At every annual general meeting of the Company, one-third of the Directors for the time being shall retire from office and being eligible for re-election.

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. All independent non-executive Directors ("INEDs" or individually "INED") of the Company, except Mr. Hong Po Kui, Martin, are not appointed for a specific term. However, all Directors are subject to the retirement and rotation once every three years in accordance with the Bye-laws of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the Code.

All Directors retire from office by rotation and are subject to re-election at an annual general meeting of the Company at least once every three years. Details of the re-election of Directors to be retired in the forthcoming annual general meeting of the Company will be set out in the circular of the Company to be dated 24 April 2012 (the "AGM Circular").

CORPORATE GOVERNANCE REPORT

5. NOMINATION OF DIRECTORS

Prior to 26 March 2012, the Company did not have a nomination committee. The Board as a whole was responsible for the procedure of the appointment of its members and for nominating appropriate person for election by shareholders at the general meeting, either to fill casual vacancy or as an addition to the existing Directors. During such period, the Board considered and assessed the qualification, ability and potential contribution of candidates for directorships on the Board.

According to the Bye-laws of the Company, any Directors appointed by the Board should hold office until the next following general meeting of the Company, and shall then be eligible for re-election at that meeting.

On 28 March 2011, Mr. Chen Guang Lin was nominated and appointed as an executive Director of the Company to fill the casual vacancy of Mr. Lee Sun Man.

On 29 June 2011, Mr. Ip Cheng Kuong, Mr. Fei Phillip and Mr. Yeung Tsoi San were nominated and appointed as executive Directors of the Company.

On 26 March 2012, a nomination committee was established in accordance with the Code Provisions A.5.1 to A.5.4. Details of the nomination committee are set out in the section headed "BOARD COMMITTEES".

6. BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established the following committees which are all chaired by independent non-executive Directors with defined terms of reference.

6.1 Audit Committee

The Board considers that each audit committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management in the audit committee. The written terms of reference which describe the authority and duties of the audit committee were prepared and adopted in 1998 with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The written terms of reference of the audit committee have included the duties as set out in the relevant Code Provisions.

The members met twice during the year to review the reporting of financial and other information to shareholders, the systems of internal control, risk management and the effectiveness and objectivity of the audit process. The audit committee also provides an important link between the Board and the Company's auditor in matters coming within the scope of its terms of reference and keeps the independence and objectivity of the auditor under review.

CORPORATE GOVERNANCE REPORT

6. BOARD COMMITTEES (CONTINUED)

6.1 Audit Committee (Continued)

The following is an attendance record of the audit committee meeting for the year ended 31 December 2011:

Name of audit committee member	Number of meetings attended	Attendance Rate
Ms. Ma Yin Fan *(Chairlady)*	2/2	100%
Mr. Hong Po Kui, Martin (resigned on 29 June 2011)	1/1	100%
Mr. Yu Pan	2/2	100%
Mr. Leung Hoi Ying	1/2	50%

The audit committee oversees the financial reporting process. In this process, management is responsible for the preparation of the Group's financial statements. External auditor are responsible for auditing the Group's financial statements. The members of the audit committee assist the Board in fulfilling its responsibilities by providing an independent review of the financial statements, supervising the system of financial reporting and satisfying themselves as to the effectiveness of the Group's internal controls. The audit committee presents a report to the Board on its findings after each audit committee meeting.

The audit committee reviewed and discussed with the management and external auditor the 2011 consolidated financial statements included in the 2011 Annual Report. In this regard, the audit committee held discussions with management with regard to new or changes in accounting policies that had been applied, and significant judgments of the management which affected the Group's financial statements. The audit committee received reports and met with the external auditor to discuss the general scope of their audit work, including the impact of new or changes in accounting policies that had been applied and their assessment of the Group's internal controls. Based on these review and discussions, and the report of the external auditor, the audit committee recommended the Board to approve the consolidated financial statements for the year ended 31 December 2011 and the Auditor's Report.

During the year, the audit committee reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2011 and recommended the Board to approve the unaudited condensed consolidated financial statements.

The members of the audit committee considered the appointment of external auditor, their audit fees and recommended the Board to seek shareholders' approval for the re-appointment of Messrs. Deloitte Touche Tohmatsu as the Group's external auditor for 2012.

CORPORATE GOVERNANCE REPORT

6. BOARD COMMITTEES (CONTINUED)

6.2 Nomination Committee

On 26 March 2012, the Company established a nomination committee with terms consistent with the Code Provisions A.5.1 to A.5.4. The nomination committee comprises one executive Director and two independent non-executive Directors, namely Mr. Yeung Kwok Yu, Mr. Leung Hoi Ying and Mr. Yu Pan. Mr. Leung Hoi Ying was appointed as the chairman of the nomination committee.

The principal role and function of the nomination committee includes:

– review the structure, size and composition (including the skills, knowledge and experience) of the board on a regular basis at least annually;

– make recommendations to the board regarding on any proposed changes to the board to complement the issuer's corporate strategy;

– identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships;

– assess the independence of independent non-executive directors; and

– make recommendations to the board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive officer.

The written terms of reference of the nomination committee have included the duties as set out in the relevant Code Provisions.

As the nomination committee was formed after the reporting year, no nomination committee meeting was held during the year.

CORPORATE GOVERNANCE REPORT

6. BOARD COMMITTEES (CONTINUED)

6.3 Remuneration Committee

The Company has established a remuneration committee to deal with matters of remuneration and compensation arrangement of Directors and senior management. The remuneration committee comprises chairman of the Company and four independent non-executive Directors, namely Mr. Zhang Xi, Ms. Ma Yin Fan, Mr. Leung Hoi Ying, Mr. Yu Pan and Mr. Hong Po Kui, Martin.

The written terms of reference of the remuneration committee have included the duties as set out in the relevant Code Provisions.

The principal role and function of the remuneration committee includes:

– give recommendations on the establishment of the Company's policy and structure for all remuneration of all Directors, senior management and employees;

– review and determine the remuneration packages and compensation arrangements for loss of office of all executive Directors and senior management; and

– review of performance-based remuneration policy of the Group.

The remuneration committee meets at least once each year.

The following is an attendance record of the remuneration committee meeting for the year ended 31 December 2011:

Name of remuneration committee member	Number of meetings attended	Attendance Rate
Mr. Hong Po Kui, Martin *(Chairman, resigned on 29 June 2011)*	1/1	100%
Ms. Ma Yin Fan *(Chairlady, appointed as chairlady on 29 June 2011)*	3/3	100%
Mr. Leung Hoi Ying	2/3	67%
Mr. Yu Pan	3/3	100%
Mr. Zhang Xi	3/3	100%

Details of Directors' emoluments and share options are set out in notes 14 and 34 to the consolidated financial statements respectively.

The Directors' fees are subject to shareholders' approval at general meeting. In determining the emolument payable to Directors, the remuneration committee takes into consideration factors such as their duties, responsibilities and contribution to the Company, the prevailing market conditions, time commitment and the desirability of performance-based remuneration. No Director is involved in determining his/her own remuneration.

CORPORATE GOVERNANCE REPORT

6. BOARD COMMITTEES (CONTINUED)

6.3 Remuneration Committee (Continued)

The remuneration package for each employee is structured to attract, retain and motivate high quality staff and at the same time to reflect the importance of aligning awards with shareholder interests. The remuneration package contains a combination or modifications of some or all of the three main components: basic salary, performance bonus and share options.

During the year ended 31 December 2011, the remuneration committee held three meetings and dealt with the following matters at the said meetings or by way of written resolutions:

– reviewed and approved the discretionary bonus to the Directors and management of the Company for 2011;

– reviewed and approved the fees for Directors and/or members of certain Board committees; and

– reviewed and approved the remuneration of Mr. Ip Cheng Kuong, Mr. Fei Phillip, Mr. Yeung Tsoi San and Mr. Chen Guang Lin.

7. INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness on an annual basis under Code Provision C.2.1. The Group's internal control systems comprise an established organizational structure and comprehensive policies and standards. Procedures have been designed to safeguard assets against unauthorized use or disposition, to maintain proper accounting records, for the reliability of financial information used within the business or for publication, and to ensure compliance with applicable laws and regulations. The purpose of the Group's internal control is to provide reasonable, but not absolute, assurance against material misstatement or loss and manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Group's internal control system includes following major components:

(1) Review an organizational and governance structure with defined responsibility and delegated authority;

(2) Set up stringent policies and procedures for the appraisal, review and approval of major capital and recurrent expenditures; and

(3) Review report of operations results against budgets to the Board regularly.

CORPORATE GOVERNANCE REPORT

8. EXTERNAL AUDITOR

It is the external auditor's responsibility to form an independent opinion, based on their audit, on the consolidated financial statements and to report their opinion solely to the shareholders of the Company, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the content of the auditor's report.

For the year ended 31 December 2011, Messrs. Deloitte Touche Tohmatsu was appointed as the external auditor of the Group and provided annual audit services to the Group for the remuneration of approximately HK$1,580,000 and non-audit services to the Group for the remuneration of approximately HK$3,375,000. The Board has accepted the recommendation from the audit committee on re-appointing Messrs. Deloitte Touche Tohmatsu as the external auditor of the Group.

9. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibility for preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The responsibilities of the Directors are to prepare the financial accounts for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Directors also acknowledge that the publication of the financial statements should be distributed to the Shareholders of the Company in a timely manner. In preparing the accounts for the year ended 31 December 2011, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent, fair and reasonable and prepared accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

10. MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out by the Stock Exchange in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules. Having made specific enquiries to all Directors, all Directors have complied with the required standards of dealings as set out in the Model Code and the Company's own code of conduct during the review year.

CORPORATE GOVERNANCE REPORT

11. INVESTOR RELATIONSHIP AND COMMUNICATION

The Company is responsible for ensuring that shareholders' rights are protected. In order to fulfill this responsibility, the Company endeavours to maintain a high level of transparency in communicating with shareholders and the investment community at large. The Company is committed to continue to maintain an open and effective investor communication policy and to update investors with the relevant information on its business in a timely and accurate manner, subject to the relevant regulatory requirements. In order to ensure effective, clear and accurate communication with investors, all corporate communications are arranged and handled by the executive Directors and designated senior executives according to established practices and procedures of the Company.

The Board uses annual general meetings and other general meetings as the principal channel to meet and communicate with the shareholders. Registered shareholders are notified by post for these general meetings, and the notice of meeting contains the agenda and the proposed resolutions. Any registered shareholder is entitled to attend the annual and special general meetings, provided that their shares have been recorded in the register of shareholders. The Board also encourages shareholders to participate in these general meetings to maintain an on-going dialogue with the shareholders.

Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and other interested parties. The Company's news releases, announcements and publications are circulated to all major news media in a timely and accurate manner.

Separate resolutions will be proposed by the joint chairmen of the Board in respect of each substantially separate issue at the Company's forthcoming annual general meeting. The joint chairmen of the Board, and the chairperson of the audit committee and remuneration committee will attend the forthcoming annual general meeting to answer questions of Shareholders.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and the principal activities of its principal subsidiaries are set out in note 40 to the consolidated financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on pages 38 and 39.

DIVIDEND

The Board does not recommend payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements of the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

CONVERTIBLE NOTES, SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's convertible notes, share capital and share options during the year are set out in notes 29, 32 and 34 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has no reserves available for distribution as at 31 December 2011.

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors

Mr. Zhang Xi *(Joint Chairman)*

Mr. Ip Cheng Kuong *(Joint Chairman)* (appointed on 29 June 2011, retired on 5 August 2011 and re-appointed on 5 August 2011)

Ms. Catherine Chen *(Managing Director)*

Mr. Chiu Kong

Mr. Kwan Kam Hung, Jimmy

Mr. Wah Wang Kei, Jackie

Mr. Yeung Kwok Yu

Mr. Chen Guang Lin (appointed on 28 March 2011, retired on 2 June 2011 and re-appointed on 2 June 2011)

Mr. Fei Philip (appointed on 29 June 2011, retired on 5 August 2011 and re-appointed on 5 August 2011)

Mr. Yeung Tsoi San (appointed on 29 June 2011, retired on 5 August 2011 and re-appointed on 5 August 2011)

Mr. Lee Sun Man (deceased on 18 Mach 2011)

Independent Non-executive Directors

Ms. Ma Yin Fan

Mr. Leung Hoi Ying

Mr. Yu Pan

Mr. Hong Po Kui, Martin (resigned on 29 June 2011)

In accordance with the Bye-laws 87(2) of the Company, Mr. Zhang Xi, Ms. Catherine Chen, Mr. Yeung Kwok Yu and Mr. Kwan Kam Hung, Jimmy will retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

There are no service contracts which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' REPORT

DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES

At 31 December 2011, the interest of the directors and chief executive of the Company in the shares, underlying shares of the Company and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in the shares and underlying shares
Ordinary shares of US$0.001 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Number of underlying shares in respect of the options granted under the share option scheme *(Note 1)*	Approximated percentage of the issued share capital of the Company *(Note 2)*
Mr. Zhang Xi	Beneficial owner	159,282,600	–	3.49%
Mr. Ip Cheng Kuong	Interests in controlled corporation *(Note 3)*	297,120,000	–	6.51%

Notes:

(1) Details of the options granted by the Company are set out below.

	Date of grant	Exercise period	Exercise price HK$	Number of share options at 1 January 2011	Exercised during the year	Adjusted upon capital reorganisation	Expired during the year	Number of share options at 31 December 2011
Directors								
Mr. Zhang Xi	14 July 2008	14 July 2008 – 13 July 2011	0.041 *(Note)*	91,617,000	–	(82,455,300)	(9,161,700)	–
Ms. Catherine Chen	14 July 2008	14 July 2008 – 13 July 2011	0.041 *(Note)*	91,617,000	–	(82,455,300)	(9,161,700)	–
Sub-total				183,234,000	–	(164,910,600)	(18,323,400)	–
Executives and employees	14 July 2008	14 July 2008 – 13 July 2011	0.041 *(Note)*	18,323,000	(2,568)	(16,488,389)	(1,832,043)	–
Grand total				201,557,000	(2,568)	(181,398,989)	(20,155,443)	–

Note: The average closing price of the Company's shares immediately before 14 July 2008, the date of grant of the above options, was HK$0.037. As disclosed in the announcement of the Company dated 22 June 2011, the exercise price of the options was adjusted from HK$0.041 to HK$0.410 per share of the Company.

(2) The percentages were calculated based on the Company's issued share capital of 4,564,293,000 shares as at 31 December 2011.

(3) Mr. Ip Cheng Kuong has notified the Company that he is interested in those shares of the Company held by Global Zone International Limited, a company of which 51% interests are owned by him.

Save as disclosed above, none of the Directors nor the chief executive of the Company has any interest in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2011.

DIRECTORS' REPORT

SHARE OPTIONS

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

During the year, 2,568 options granted to employees of the Company were exercised. The share option scheme of the Company has already expired on 18 November 2011 and all outstanding options granted to the Directors, executives and employees of the Company were expired under the Company's share option scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in notes 33 and 38 to the consolidated financial statements, no contracts of significance to which the Company, its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTINUING CONNECTED TRANSACTION

With reference to the announcement of the Company dated 29 November 2010 and the circular dated 20 December 2010, on 29 November 2010, Allywing Investments Limited ("Allywing"), a wholly owned subsidiary of the Company, entered into a management agreement with Harvest Day Limited ("Harvest Day"), a company of which 60% issued share capital is held by a sister of Mr. Zhang Xi, the Joint Chairman and an executive Director of the Company. Pursuant to the management agreement, Harvest Day would provide management and consultancy services to Allywing in connection with the development of the Site. Allywing would pay to Harvest Day an inclusive management fee of HK$50,000,000 by 3 installments. The resolution approving the management agreement and the annual caps of management fee payable to Harvest Day was passed at the special general meeting of the Company held on 6 January 2011. The first installment of HK$23,000,000 was paid on 7 January 2011 according to terms and conditions of the management agreement.

The Directors including the independent non-executive Directors have considered that the above constituted continuing connected transaction under the Listing Rules and was undertaken in normal course of business. It has complied with applicable requirements under the Listing Rules and is reported in this Annual Report in accordance with the Listing Rules.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the register of the substantial shareholders other than a Director or chief executive of the Company maintained under Section 336 of the SFO shows that the following shareholders has notified the Company of the following shareholder's interests in the issued share capital of the Company:

Long positions in the shares and underlying shares

Ordinary shares of US$0.001 each of the Company

Name of shareholder	Capacity	Number of shares or underlying shares of the Company	Approximate percentage of the issued share capital of the Company *(Note 1)*
Ng Leung Ho *(Note 2)*	Beneficial owner	600,000,000	13.15%
So Chi Ming *(Note 2)*	Beneficial owner	1,000,000,000	21.91%
Global Zone International Limited *(Note 3)*	Beneficial owner	297,120,000	6.51%
Lau Yung *(Note 4)*	Interests in controlled corporation	2,523,809,521	55.29%
Hefu Limited *(Note 4)*	Beneficial owner	2,523,809,521	55.29%

Notes:

(1) *The percentages were calculated based on the Company's issued share capital of 4,564,293,000 shares as at 31 December 2011.*

(2) *All these underlying shares can be converted into an aggregate of 1,600,000,000 ordinary shares of the Company upon exercise of the conversion rights under the convertible notes in the aggregate principal amount of HK$160,000,000 at a conversion price of HK$0.1 per share.*

(3) *Global Zone International Limited is held as to 51% by Mr. Ip Cheng Kuong, the joint chairman and an executive Director.*

(4) *Pursuant to the Acquisition Agreement, Hefu Limited will be interested in 2,523,809,521 shares of the Company to be allotted and issued by the Company as consideration shares in different stages subject to the terms and conditions of the Acquisition Agreement. Mr. Lau Yung is deemed to be interested in those shares of the Company interested by Hefu Limited, a company which is held as to 97% by Mr. Lau Yung.*

Save as disclosed above, the Company has not been notified of any other relevant interests on short positions in the share capital of the Company as at 31 December 2011.

DIRECTORS' REPORT

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange. The Company considers all the independent non-executive Directors are independent.

EMOLUMENT POLICY

The remuneration policy of the employees of the Group is formulated on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided, having regard to their duties, responsibilities and contribution to the Company, the prevailing market conditions, time commitment and the desirability of performance-based remuneration.

The Company and its subsidiaries have adopted share option schemes as an incentive to directors and eligible employees, details of the schemes are set out in note 34 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Details of the Group's transactions with its major suppliers and customers during the year are set out below:

During the year, the aggregate amount of turnover attributable to the Group's five largest customers represented 60.9% (2010: 34.7%) of the Group's total turnover (included in discontinued operations). In 2011, our largest customer accounted for 19.3% of turnover (included in discontinued operations) (2010: 12.0%).

In both years, the aggregate amount of purchases received attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

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

EVENT AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 39 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' REPORT

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules during the year and up to the date of this report.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

ZHANG XI
Joint Chairman

Hong Kong, 28 March 2012

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHINA NEW ENERGY POWER GROUP LIMITED
中國新能源動力集團有限公司
(FORMERLY KNOWN AS FULBOND HOLDINGS LIMITED 福邦控股有限公司)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China New Energy Power Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 121, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

INDEPENDENT AUDITOR'S REPORT

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at 31 December 2011 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements, which indicates that, as at 31 December 2011, the Group had current liabilities which exceeded its current assets by HK$2,679,000 out of which convertible notes with an aggregate carrying amount of HK$595,797,000, and principal amount of HK$396,000,000 will be due for repayment within twelve months from the end of the reporting period. The Group is implementing a number of measures, as disclosed in note 2 to the consolidated financial statements, to improve the financial position of the Group and after taking into account these steps, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due. However, the sufficiency of working capital of the Group is dependent on its ability to successfully implement such measures and therefore, this, along with other matters as set forth in note 2 to the consolidated financial statements, indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	2011 HK$'000	2010 HK$'000 (Restated)
Continuing operations			
Turnover	8	125	–
Cost of sales		–	–
Gross profit		125	–
Other income	9	823	40
Other gains and losses	10	199,527	(703,215)
Administrative expenses		(38,141)	(51,254)
Other expenses	14	(23,000)	–
Finance costs	11	(39,849)	(25,869)
Profit (loss) before taxation		99,485	(780,298)
Taxation	12	–	–
Profit (loss) for the year from continuing operations		99,485	(780,298)
Discontinued operation(s)			
Loss for the year from discontinued operation	13	(68,829)	(4,749)
Profit (loss) for the year	14	30,656	(785,047)
Other comprehensive income			
Exchange differences arising on translation to presentation currency		2,613	5,673
Total comprehensive income (expense) for the year		33,269	(779,374)
Profit (loss) for the year attributable to:			
Owners of the Company			
– from continuing operations		102,611	(778,587)
– from discontinued operation(s)		(41,725)	(4,794)
		60,886	(783,381)
Non-controlling interests			
– from continuing operations		(3,126)	(1,711)
– from discontinued operation(s)		(27,104)	45
		(30,230)	(1,666)
Profit (loss) for the year		30,656	(785,047)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	2011 HK$'000	2010 HK$'000 (Restated)
Total comprehensive income (expense) attributable to:			
Owners of the Company		61,543	(780,030)
Non-controlling interests		(28,274)	656
		33,269	(779,374)
EARNINGS (LOSS) PER SHARE	15		
From continuing and discontinued operations			
– Basic		HK1.33 cents	HK(22.41) cents
– Diluted		HK(1.59) cents	HK(24.35) cents
From continuing operations			
– Basic		HK2.25 cents	HK(22.27) cents
– Diluted		HK(1.10) cents	HK(24.28) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	NOTES	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	16	4,118	3,723
Prepaid lease payments	17	5,230	5,150
Interests in associates	18	–	–
Other investments	19	–	–
Club debenture	20	–	–
		9,348	8,873
Current assets			
Inventories	21	–	45,378
Properties under development	22	576,810	512,571
Held-for-trading investments	23	43,178	95,002
Trade and other receivables	24	25,297	78,582
Deposits and prepayments		7,796	36,635
Bank balances and cash	25	30,226	143,492
		683,307	911,660
Current liabilities			
Trade and other payables	26	52,144	76,446
Amounts due to associates	27	–	3,767
Amounts due to directors of subsidiaries	26	4,388	4,388
Amounts due to non-controlling shareholders of subsidiaries	26	32,057	9,613
Taxation payable		–	2,577
Obligation under a finance lease	28	77	77
Convertible notes	29	595,797	–
Bank and other borrowings – amount due within one year	31	1,523	79,991
		685,986	176,859
Net current (liabilities) assets		(2,679)	734,801
Total assets less current liabilities		6,669	743,674
Non-current liabilities			
Convertible notes	29	–	792,028
Obligation under a finance lease	28	–	77
		–	792,105
		6,669	(48,431)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	NOTES	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	32	**35,465**	354,722
Reserves		**(244,149)**	(624,949)
Capital deficiency attributable to owners of the Company		**(208,684)**	(270,227)
Non-controlling interests		**215,353**	221,796
		6,669	(48,431)

The consolidated financial statements on pages 38 to 121 were approved and authorised for issue by the Board of Directors on 28 March 2012 and are signed on its behalf by:

YEUNG KWOK YU
Director

CATHERINE CHEN
Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Attributable to owners of the Company										
	Share capital	**Share premium**	**Capital reserve**	**General reserve**	**Exchange translation reserve**	**Share option reserve**	**Capital redemption reserve**	**Accumulated losses**	**Sub-total**	**Non-controlling interests**	**Total**
	HK$'000	HK$'000	HK$'000 (Note a)	HK$'000 (Note b)	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	108,464	459,969	4,289	15,002	16,712	4,061	34	(1,074,070)	(465,539)	3,750	(461,789)
Exchange differences arising on translation of functional currency to presentation currency	–	–	–	–	3,351	–	–	–	3,351	2,322	5,673
Loss for the year	–	–	–	–	–	–	–	(783,381)	(783,381)	(1,666)	(785,047)
Total comprehensive expense for the year	–	–	–	–	3,351	–	–	(783,381)	(780,030)	656	(779,374)
Exercise of warrants	9,542	46,521	–	–	–	–	–	–	56,063	–	56,063
Issue of shares upon conversion of convertible notes	236,716	682,563	–	–	–	–	–	–	919,279	–	919,279
Lapse of share options	–	–	–	–	–	(755)	–	755	–	–	–
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	217,390	217,390
Reserve released upon disposal of subsidiaries	–	–	–	(3,297)	4,775	–	–	(1,478)	–	–	–
At 31 December 2010	354,722	1,189,053	4,289	11,705	24,838	3,306	34	(1,858,174)	(270,227)	221,796	(48,431)
Exchange differences arising on translation of functional currency to presentation currency	–	–	–	–	657	–	–	–	657	1,956	2,613
Profit (loss) for the year	–	–	–	–	–	–	–	60,886	60,886	(30,230)	30,656
Total comprehensive income (expense) for the year	–	–	–	–	657	–	–	60,886	61,543	(28,274)	33,269
Reduction of share capital upon capital reorganisation	(319,257)	(1,189,053)	–	–	–	–	–	1,508,310	–	–	–
Lapse of share options	–	–	–	–	–	(3,306)	–	3,306	–	–	–
Reserves released upon disposal of subsidiaries	–	–	–	(11,480)	(23,384)	–	–	34,864	–	–	–
Disposal of subsidiaries (note 13)	–	–	–	–	–	–	–	–	–	21,831	21,831
At 31 December 2011	**35,465**	**-**	**4,289**	**225**	**2,111**	**-**	**34**	**(250,808)**	**(208,684)**	**215,353**	**6,669**

Notes:

(a) Capital reserve represents the reserve arising from the group restructuring which took place in 1996.

(b) General reserve comprises Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in the People's Republic of China (the "PRC") in accordance with the memorandum and articles of association of those subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES			
Profit (loss) before taxation from continuing and discontinued operations		30,656	(785,047)
Adjustments for:			
Allowance for bad debt and doubtful debts		21,412	–
Allowance for inventories		41,462	–
Amortisation of prepaid lease payments		117	326
Deposits and prepayments written off		2,789	–
Depreciation of property, plant and equipment		1,040	8,833
Finance costs		42,770	30,070
Gain on disposal of subsidiaries	13	(21,477)	(1,631)
Gain on early redemption of convertible notes		–	(37,317)
Interest income		(1,718)	(966)
Net (gain) loss on derivative financial instruments and warrants		(235,964)	731,671
Net loss on held-for-trading investments		36,437	8,861
Operating cash flows before movements in working capital		(82,476)	(45,200)
Increase in properties under development		(50,705)	–
(Increase) decrease in inventories		(15,297)	4,538
Decrease (increase) in trade and other receivables		1,110	(13,066)
Decrease (increase) in deposits and prepayments		11,861	(17,983)
Net decrease (increase) in held-for-trading investments		15,387	(103,864)
Decrease in trade and other payables		(9,480)	(6,211)
NET CASH USED IN OPERATING ACTIVITIES		(129,600)	(181,786)
INVESTING ACTIVITIES			
Acquisition of subsidiaries	33	–	(296,762)
Disposal of subsidiaries	13(a)	(23,038)	(8,252)
Interest received		1,718	966
Deferred consideration from disposal of food processing and distribution operation	13(b)	18,000	–
Purchases of property, plant and equipment		(1,305)	(5,742)
NET CASH USED IN INVESTING ACTIVITIES		(4,625)	(309,790)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 HK$'000	2010 HK$'000
FINANCING ACTIVITIES		
Interest paid	(3,037)	(4,889)
Advances from non-controlling shareholders of subsidiaries	22,090	–
New bank loans raised	79,283	74,223
Repayments of bank loans	(77,905)	(74,223)
Repayment of other borrowings	(2,000)	–
Repayment of obligation under a finance lease	(77)	(77)
Redemption of convertible notes	–	(130,268)
Proceed from issue of convertible notes	–	500,000
Proceed from exercise of warrants	–	31,968
NET CASH FROM FINANCING ACTIVITIES	18,354	396,734
NET DECREASE IN CASH AND CASH EQUIVALENTS	(115,871)	(94,842)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	143,492	237,405
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	2,605	929
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	30,226	143,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As at 31 December 2011 and 31 December 2010, the Company did not have immediate and ultimate holding company. The address of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") while the functional currency of the Company is Renminbi ("RMB") and the functional currencies of the Company's principal subsidiaries are RMB and HK$. In prior years, the Company's presentation currency was United States dollars ("US$"). During the current year, the directors of the Company have changed the presentation currency of the Company from US$ to HK$ with effect from 1 January 2011. The consolidated financial statements for this year are presented in HK$ as the directors consider that HK$ is the appropriate presentation currency since the Company is a public company with the shares listed on the Stock Exchange. The comparative figures for the year ended and at 31 December 2010 have been restated to present in HK$.

The Company acts as an investment holding company. The principal activities of its subsidiaries as at 31 December 2011 are investment in securities and property development business. The Group was also engaged in the food processing and distribution business which was discontinued in year 2010 and was engaged in manufacture of and trading in timber products business which was discontinued in the current year as disclosed in note 13.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of the fact that, as of 31 December 2011, the Group had current liabilities which exceeded its current assets by HK$2,679,000, out of which convertible notes with an aggregate carrying amount of HK$595,797,000, and principal amount of HK$396,000,000, will be due for redemption within twelve months from the end of the reporting period. To address the liquidity issue, the Group obtained an undertaking from a shareholder and Joint Chairman of the Company, Mr. Zhang Xi ("Mr. Zhang"), who has stated that he will provide the Group with financial support in meeting the Group's financial obligations as they fall due in the foreseeable future. In addition, the Group is in the process of raising additional funds from share placing and as of the date of this report, the Company has obtained indication from several potential investors that they intend to subscribe for new shares of the Company in the sum of not less than HK$150,000,000. The proceeds from the share placing will be used as general working capital for the Group. As at the date of approval for issuance of these consolidated financial statements, certain convertible note holders have given notices to the Company to exercise their option to convert their convertible notes with an aggregate principal amount of HK$306,000,000 into new shares of the Company. Furthermore, the Company is in the process of obtaining new bank borrowings to finance its property development business through the pledge of its equity interest in the property development project.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The directors of the Company are of the view that available funds will be available to meet the Group's financial obligations as and when they fall due in the foreseeable future, taking into account the abovementioned measures implemented and accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of rights issues
Amendments to HK(IFRIC) – INT 14	Prepayments of a minimum funding requirement
HK (IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments

The application of the new and revised HKFRSs in the current year has had no effect on the amounts reported in these consolidated financial statements and disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

Amendments to HKFRS 7	Disclosures – Transfers of financial assets[1]
	Disclosures – Offsetting financial assets and financial liabilities[2]
Amendments to HKFRS 7 and HKFRS 9	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 9	Financial instruments[3]
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]
Amendments to HKAS 1	Presentation of items of other comprehensive income[5]
Amendments to HKAS 12	Deferred tax – Recovery of underlying assets[4]
HKAS 19 (as revised in 2011)	Employee benefits[2]
HKAS 27 (as revised in 2011)	Separate financial statements[2]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[6]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.

2 Effective for annual periods beginning on or after 1 January 2013.

3 Effective for annual periods beginning on or after 1 January 2015.

4 Effective for annual periods beginning on or after 1 January 2012.

5 Effective for annual periods beginning on or after 1 July 2012.

6 Effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 Financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

HKFRS 9 Financial instruments (continued)

Key requirements of HKFRS 9 are described as follows:

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

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future shall have no significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

HKFRS 13 Fair value measurement

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

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will not have effect on the amounts reported in the consolidated financial statements but may result in more extensive disclosures in the consolidated financial statements.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards). Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries (continued)

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

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

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

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

- liabilities or equity instruments related to share-based payment arrangements of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

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

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional share of losses is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with its associate profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interest in the associate that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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

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

Specifically, revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the buyers. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Dividend income from held-for-trading investments is recognised when the shareholder's rights to receive payment have been established.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Properties under development

Properties under development for sale in the ordinary course of business is included in current assets and are stated at the lower of cost and net realisable value. Costs relating to the development of properties include land cost, construction cost and other direct development expenditure.

Property, plant and equipment

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on assets

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

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

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

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

Inventories

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

Leasing

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

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

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

Borrowing costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

The Group's financial assets at FVTPL represent financial assets held-for-trading. A financial asset is classified as held-for-trading if:

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividends or interest earned on the financial assets and is included in turnover in the consolidated statement of comprehensive income.

Loans and receivables

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

Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or

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

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets (continued)

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

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to associates/directors of subsidiaries/non-controlling shareholders of subsidiaries, bank and other borrowings and the liability component of convertible notes) are subsequently measured at amortised cost, using the effective interest method.

Convertible notes that contains liability component, conversion option derivative and early redemption option derivatives

Convertible notes issued by the Group that contain both liability and embedded derivatives (conversion option and early redemption option which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative. At the date of issue, both the liability and embedded derivatives are recognised at fair value.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

The embedded derivatives are remeasured at their fair value immediately prior to the date of redemption or conversion of the convertible notes with changes in fair value being recognised in profit or loss. For redemption of convertible notes, the resulting gain or loss (calculated at the difference between the redemption amount paid and the carrying amount of the convertible notes, being the aggregate amount of the liability component, conversion option derivative and early redemption option derivative) is recognised in profit or loss. For conversion of convertible notes, the carrying amount of the convertible notes is transferred to equity with the resulting shares issued being recorded as additional share capital at nominal value of the shares and the excess of the carrying amount of the convertible notes over the nominal value of the shares being recorded in share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and embedded derivatives in proportion to their relative fair values. Transaction costs relating to the embedded derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Derivative financial instruments

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

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

Share-based payment transactions

Share options granted to directors and employees of the Company

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange translation reserve (attributed to non-controlling interests as appropriate).

Retirement benefits

Payments to Mandatory Provident Fund ("MPF") scheme are recognised as an expense when employees have rendered services entitling them to the contribution. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Fair value of embedded conversion option and early redemption option of convertible notes

The directors of the Company use their judgement in selecting an appropriate valuation technique to determine fair value of embedded conversion option and early redemption option of the convertible notes which are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair value of the derivative financial liabilities are determined at the end of the reporting period with movements in fair value recognised in profit or loss. In estimating the fair value of these derivative financial liabilities, the Group uses independent valuation which is based on various inputs and estimates based on quoted market rates and adjusted for specific features of the instrument (see note 29). If the inputs and estimates applied in the model are different, the carrying amount of these derivative financial liabilities will change. The carrying value of the embedded conversion option and early redemption option of convertible notes at 31 December 2011 were HK$248,461,000 (2010: HK$484,425,000).

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes amounts due to directors of subsidiaries and amount due to non-controlling shareholders of subsidiaries, convertible notes, bank balances and cash as disclosed in respective notes and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a semi-annually basis. As part of this review, the directors consider the cost of capital and will balance its overall capital structure through the new shares issues as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	55,523	233,116
Financial assets at FVTPL	43,178	95,002
	98,701	328,118
Financial liabilities		
Amortised cost	418,001	478,767
Derivative financial liabilities	248,461	484,425
	666,462	963,192

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, trade and other payables, amounts due to associates/directors of subsidiaries/non-controlling shareholders of subsidiaries, convertible notes, bank and other borrowings and bank balances and cash. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Certain subsidiaries of the Company have foreign currency sales during the year and at the end of the reporting period certain assets and liabilities (details are disclosed in respective notes) are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

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

	2011		2010	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$000**	HK$'000	HK$'000
United States dollars	**–**	**–**	4,154	–
Hong Kong dollars	**41,377**	**365,151**	114,554	326,980
	41,377	**365,151**	118,708	326,980

Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuations of United States dollars and Hong Kong dollars. The following table details the Group's sensitivity to a 5% (2010: 5%) increase in RMB against the relevant foreign currency while all other variables are held constant. 5% (2010: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2010: 5%) change in foreign currency rates.

The sensitivity analysis includes monetary items where the denomination of the balances is in a currency other than the functional currency of the respective group entities. A positive number below indicates an increase in profit (2010: decrease in loss) for the year where RMB strengthen 5% (2010: 5%) against the relevant currency while a negative number represents a decrease in profit (2010: increase in loss) for the year. For a 5% (2010: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the result for the year.

	2011	2010
	HK$'000	HK$'000
United States dollars	**–**	(208)
Hong Kong dollars	**16,189**	10,621

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

At 31 December 2010, the Group is exposed to cash flow interest rate risk in relation to bank deposits and variable-rate bank borrowings and fair value interest rate risk in relation to fixed rate other borrowings, convertible notes and a three year loan note. At 31 December 2011, the Group is exposed to fair value interest rate risk in relation to fixed rate convertible notes and a three-year loan note. The Group also exposed to cash flow interest rate risk in relation to bank deposits. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fixed rate short-term bank deposits is subject to cash flow interest rate risk as the fixed deposits are renewed every one to three months.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. At 31 December 2010, the Group's cash flow interest rate risk is mainly related to the fluctuation of the best lending rate offered by the People's Bank of China arising from the Group's variable rate bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank deposits (2010: bank deposits and variable rate bank borrowings) at the end of the reporting period. For short-term bank deposits (2010: bank deposits and variable rate bank borrowings), the analysis is prepared assuming the amount of bank deposits (2010: bank deposits and bank borrowings) at the end of the reporting period was existing for the whole year. A 50 (2010: 50) basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been 50 (2010: 50) basis points higher and all other variables were held constant, the Group's profit (2010: loss) for the year ended 31 December 2011 would increase by HK$151,000 (2010: decrease by HK$335,000). There would be an equal and opposite impact on the result for the year where there had been 50 (2010: 50) basis points lower.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure does not reflect the exposure during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

(iii) Other price risk

The Group was exposed to equity price risk arising from the conversion option derivative and early redemption option (derivative components) of the convertible notes. The fair values of the conversion option derivative and early redemption option were calculated using the binomial option pricing model. Details of the derivative financial instrument is set out in note 29.

If the input of share price to the valuation models of the derivative components of the convertible notes had been 5% higher/lower while all other variables were held constant, the profit (2010: loss) for the year would increase (decrease) (2010: (increase) decrease) as follows:

	2011 HK$'000	2010 HK$'000
Higher by 5%		
– Derivative components	(27,853)	(37,019)
Lower by 5%		
– Derivative components	25,727	38,223

The Group is also exposed to equity security price risk through its held-for-trading investments. The management of the Group manages this exposure by maintaining a portfolio of investments with different risk profiles and the directors of the Company will monitor the price risk and will consider hedging the risk exposure should the need arise. If the market prices of the held-for-trading investments had been 10% higher/lower, the Group's profit (2010: loss) for the year would increase/decrease (2010: decrease/increase) by HK$4,318,000 (2010: HK$9,500,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. During the year ended 31 December 2011, the Group has disposed of its timber operations, and as at 31 December 2011, the Group does not have any trade receivables that exposed to credit risk.

At 31 December 2011, the Group has concentration risk on consideration receivable for disposal of food processing and distribution operation amounting to HK$25,000,000 (2010: HK$43,000,000), which represented 98.8% (2010: 54.7%) of the total trade and other receivables. The directors of the Company consider that the credit risk is minimal in light of the fact that subsequent to the end of the reporting period, an amount of HK$6,000,000 was subsequently settled and the Company has entered into a supplemental agreement with the counterparty agreeing that a further amount of HK$6,000,000 will be settled on or before 30 March 2012 and the remaining balance will be settled on or before 30 April 2012.

At 31 December 2011, the Group has concentration risk on its held-for-trading investments with 46% (2010: 32%) of the total held-for-trading investments concentrated in a single entity which is listed in Hong Kong.

The credit risk on bank deposits and bank balances is limited because the counterparties are banks with good reputation.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including raising of loans to cover expected cash demands, subject to approval by the board of directors of the Company when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its short and long term liquidity requirements.

At 31 December 2011, the Group had net current liabilities which exceeded its current assets by HK$2,679,000, out of which convertible notes with an aggregate carrying amount of HK$595,797,000, and principal amount of HK$396,000,000, will be due for repayment within twelve months from the end of the reporting period. As set out in note 2, the Group is implementing a number of measures to address the liquidity risk. These include obtaining an undertaking from a shareholder and Joint Chairman of the Company to provide the Group with financial support in meeting the Group's daily financial obligations and improving working capital from the placing of shares of the Company, the conversion by the holders of convertible notes into new shares of the Company and the raising of new bank borrowings. On this basis, the directors of the Company are satisfied that the Group will have sufficient funds to meet in full its financial obligations as they fall due in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following table details the Group's contractual maturity of its major financial liabilities. For financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year	Total undiscounted cash flow	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2011								
Trade and other payables	–	32,620	–	–	–	–	32,620	32,620
Amounts due to directors of subsidiaries	–	4,388	–	–	–	–	4,388	4,388
Amount due to non-controlling shareholders of subsidiaries	–	32,057	–	–	–	–	32,057	32,057
Obligation under a finance lease	8.8	–	19	19	53	–	91	77
Convertible notes	–	–	–	–	396,000	–	396,000	347,336
Other borrowings	7.0	–	–	1,567	–	–	1,567	1,523
		69,065	19	1,586	396,053	–	466,723	418,001
At 31 December 2010								
Trade and other payables	–	38,056	35,195	–	–	–	73,251	73,251
Amounts due to associates	–	3,767	–	–	–	–	3,767	3,767
Amounts due to directors of subsidiaries	–	4,388	–	–	–	–	4,388	4,388
Amount due to non-controlling shareholders of subsidiaries	–	9,613	–	–	–	–	9,613	9,613
Obligation under a finance lease	8.8	–	19	19	39	91	168	154
Convertible notes	–	–	–	–	–	396,000	396,000	307,603
Bank and other borrowings	3.7	–	11,618	20,814	47,865	–	80,297	79,991
		55,824	46,832	20,833	47,904	396,091	567,484	478,767

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value

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

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

- the fair value of financial assets and financial liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions as input; and

- the fair value of the embedded conversion option and early redemption option of the convertible notes are estimated using option models and discounted cash flow analysis and the inputs into the models are disclosed in note 29.

Fair value measurements recognised in the consolidated statement of financial position

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value (continued)

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

	At 31 December 2011			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Held-for-trading investments	43,178	–	–	43,178
Financial liabilities at FVTPL				
Embedded conversion option and early redemption option of convertible notes	–	–	248,461	248,461

	At 31 December 2010			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Held-for-trading investments	95,002	–	–	95,002
Financial liabilities at FVTPL				
Embedded conversion option and early redemption option of convertible notes	–	–	484,425	484,425

There were no transfers between level 1 and level 2 in the current and prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value (continued)

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

Reconciliation of Level 3 fair value measurement of financial liabilities:

	Warrants	Embedded derivatives of convertible notes	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2010	80,834	353,333	434,167
Exercised during the year	(30,958)	–	(30,958)
Issued during the year	–	780,351	780,351
Adjustment	–	(5,050)	(5,050)
Total gains or losses	(49,876)	143,901	94,025
Redeemed during the year	–	(85,296)	(85,296)
Converted during the year	–	(702,814)	(702,814)
At 31 December 2010	–	484,425	484,425
Total gains or losses	–	(235,964)	(235,964)
At 31 December 2011	**–**	**248,461**	**248,461**

8. TURNOVER AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to segments and to assess their performance. Reported segment information is based on internal management reporting information that is regularly reviewed by the board of directors, being the CODM of the Group. The measurement policies the Group used for segment reporting are the same as those used in its HKFRS financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

The Group's operations are organised based on the four business activities described below. Similarly, the information reported to the CODM is also prepared on such basis. Accordingly, the operating and reportable segments of the Group are as follows:

- Investments in securities – trading of securities;
- Property development – development of properties held for sale;
- Timber – manufacture of and trading in wooden products including blockboard and particle board, door skin and other wooden products; and
- Food processing and distribution – processing and distribution of frozen seafood products.

The operations of investment in securities and property development were introduced to the Group in 2010. The operation of timber business was discontinued in the current year, whilst the operation of food processing and distribution was discontinued in 2010.

Turnover from investment in securities business represents dividend income from held-for-trading investments and turnover from timber business represents revenue from sales of goods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(a) Segment turnover and results

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

For the year ended 31 December 2011

	Continuing operations			Discontinued operation	
	Investment in securities HK$'000	Property development HK$'000	Total HK$'000	Timber HK$'000	Consolidated HK$'000
TURNOVER					
External sales	125	–	125	76,556	76,681
RESULT					
Segment result	(36,312)	(7,925)	(44,237)	(86,317)	(130,554)
Unallocated corporate income			823	944	1,767
Unallocated corporate expenses			(53,216)	(2,012)	(55,228)
Other gains and losses			235,964	21,477	257,441
Finance costs			(39,849)	(2,921)	(42,770)
Profit (loss) for the year			99,485	(68,829)	30,656

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(a) Segment turnover and results (continued)

For the year ended 31 December 2010

	Continuing operations			Discontinued operations			
	Investment in securities HK$'000	Property development HK$'000	Total HK$'000	Timber HK$'000	Food processing and distribution HK$'000	Total HK$'000	Consolidated HK$'000
TURNOVER							
External sales	–	–	–	101,886	17,636	119,522	119,522
RESULT							
Segment result	(8,861)	(3,962)	(12,823)	5,829	(784)	5,045	(7,778)
Unallocated corporate income			40			12,024	12,064
Unallocated corporate expenses			(47,292)			(19,248)	(66,540)
Other gains and losses			(694,354)			1,631	(692,723)
Finance costs			(25,869)			(4,201)	(30,070)
Profit (loss) for the year			(780,298)			(4,749)	(785,047)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment result represents loss from each segment without allocation of central administrative costs, directors' salaries, finance costs, other gains or losses excluding the loss from held-for-trading investments, which is included in the investment in securities segment result. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment assets and liabilities

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

At 31 December 2011

	Continuing operations		
	Investment in securities HK$'000	Property development HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	43,178	576,810	619,988
Unallocated corporate assets			72,667
Consolidated total assets			692,655
LIABILITIES			
Segment liabilities	–	15,820	15,820
Unallocated corporate liabilities			670,166
Consolidated total liabilities			685,986

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment assets and liabilities (continued)

At 31 December 2010

	Continuing operations			Discontinued operation	
	Investment in securities	Property development	Total	Timber	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Segment assets	95,002	512,571	607,573	100,349	707,922
Unallocated corporate assets			141,815	70,796	212,611
Consolidated total assets			749,388	171,145	920,533
LIABILITIES					
Segment liabilities	–	244	244	20,922	21,166
Unallocated corporate liabilities			865,327	82,471	947,798
Consolidated total liabilities			865,571	103,393	968,964

The Group's unallocated corporate assets at the end of the reporting period mainly consist of other investments, club debentures, bank balances and cash and certain other receivables and prepayments. The Group's unallocated corporate liabilities at the end of the reporting period mainly consist of amounts due to associates/directors of subsidiaries/non-controlling shareholders of subsidiaries, convertible notes, bank and other borrowings and certain other creditors and accrued charges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(c) Other segment information

For the year ended 31 December 2011

	Continuing operations				Discontinued operation	
	Investment in securities HK$'000	Property development HK$'000	Unallocated HK$'000	Total HK$'000	Timber HK$'000	Consolidated HK$'000
Information included in segment results/segment assets:						
Additions to property, plant and equipment	–	964	341	1,305	–	1,305
Amortisation of prepaid lease payments	–	–	117	117	–	117
Depreciation of property, plant and equipment	–	836	204	1,040	–	1,040
Allowance for bad and doubtful debts	–	–	–	–	21,412	21,412
Allowance for inventories	–	–	–	–	41,462	41,462
Deposits and prepayments written off	–	–	–	–	2,789	2,789
Net loss on held-for-trading investments	36,437	–	–	36,437	–	36,437

For the year ended 31 December 2010

	Continuing operations				Discontinued operations		
	Investment in securities HK$'000	Property development HK$'000	Unallocated HK$'000	Total HK$'000	Timber HK$'000	Food processing and distribution HK$'000	Consolidated HK$'000
Information included in segment results/segment assets:							
Additions to property, plant and equipment	–	2,117	1,343	3,460	2,282	–	5,742
Amortisation of prepaid lease payments	–	–	–	–	326	–	326
Depreciation of property, plant and equipment	–	138	353	491	8,342	–	8,833
Net loss on held-for-trading investments	8,861	–	–	8,861	–	–	8,861

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(c) Other segment information (continued)

Substantially all of the Group's operations are located in the People's Republic of China (the "PRC") (country of domicile) and Hong Kong.

Included in the Group's non-current assets are amount of HK$217,000 (2010: HK$347,000) of property, plant and equipment which are located in Hong Kong and all the remaining non-current assets are located in the PRC (place of domicile of the group entities that hold such assets).

Included in the Group's turnover were dividend income generated from investment in securities and were derived from Hong Kong, all remaining turnover from discontinued operation(s) were derived from the PRC.

(d) Information about major customers

Turnover (included in discontinued operation) from customers of the corresponding years contributing 10% of the total sales of the Group are as follows:

	2011 HK$'000	2010 HK$'000
Customer A[1]	14,807	14,516
Customer B[1, 2]	10,754	N/A
Customer C[1, 2]	8,119	N/A

1 Turnover from the timber segment.

2 The corresponding turnover does not contribute over 10% of the total sales of the Group in 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

9. OTHER INCOME

	Continuing operations		Discontinued operation(s)		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Value added tax refund (note a)	**–**	–	**–**	6,669	**–**	6,669
Interest income	**774**	23	**944**	943	**1,718**	966
Sales of scrap materials	**–**	–	**2,136**	295	**2,136**	295
Sub-contracting income	**–**	–	**–**	1,235	**–**	1,235
Government grants (note b)	**–**	–	**1,906**	2,030	**1,906**	2,030
Others	**49**	17	**1,135**	1,540	**1,184**	1,557
	823	40	**6,121**	12,712	**6,944**	12,752

Notes:

(a) Certain subsidiaries of the Company established in the PRC are engaged in the production of wooden products which require the use of raw materials that are environmental friendly. Pursuant to the relevant rules and regulations of the PRC governing the value added tax ("VAT"), such subsidiaries were entitled to a VAT refund totalling HK$6,669,000 for the year ended 31 December 2010 (nil for the year ended 31 December 2011).

(b) Government grants represents compensation received for expenditures incurred in relation to energy saving and waste reduction for the Group's timber related business in 2010 and 2011 and other subsidies granted for the Group's food processing and distribution business in 2010. There were no unfulfilled conditions attached to these grants and, therefore, the Group recognised the grants as income upon receipts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

10. OTHER GAINS AND LOSSES

	Continuing operations		Discontinued operation(s)		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Net gain (loss) on derivative financial instruments and warrants (notes 29 and 30)	**235,964**	(731,671)	**–**	–	**235,964**	(731,671)
Gain on early redemption of convertible notes (note 29)	**–**	37,317	**–**	–	**–**	37,317
Gain on disposal of subsidiaries (note 13)	**–**	–	**21,477**	1,631	**21,477**	1,631
Net loss on held-for-trading investments	**(36,437)**	(8,861)	**–**	–	**(36,437)**	(8,861)
	199,527	(703,215)	**21,477**	1,631	**221,004**	(701,584)

11. FINANCE COSTS

	Continuing operations		Discontinued operation(s)		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on:						
– borrowings from banks and other financial institutions wholly repayable within five years	**–**	575	**2,921**	4,201	**2,921**	4,776
– other borrowings	**116**	113	**–**	–	**116**	113
Effective interest expense on convertible notes wholly repayable within five years	**39,733**	25,181	**–**	–	**39,733**	25,181
	39,849	25,869	**2,921**	4,201	**42,770**	30,070

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

12. TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries incorporated in Hong Kong have no assessable profits for both years.

No provision for PRC Enterprise Income Tax has been made as the subsidiaries incorporated in the PRC have no assessable profits for both years.

The taxation for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2011 **HK$'000**	2010 HK$'000
Profit (loss) before taxation (from continuing operations)	**99,485**	(780,298)
Tax at the domestic income tax rate of 25% (2010: 25%) (note)	**24,871**	(195,075)
Tax effect of expenses not deductible for tax purpose	**17,492**	187,144
Tax effect of income not taxable for tax purpose	**(59,171)**	(10,644)
Tax effect of tax losses not recognised	**16,808**	18,575
Taxation for the year (relating to continuing operations)	**–**	–

Note: The domestic income tax rate of 25% (2010: 25%) represents the PRC Enterprise Income Tax rate of which the Group's operations are substantially based.

At the end of the reporting period, the Group had unused tax losses of HK$272,991,000 (2010: HK$213,446,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$3,201,000 (2010: HK$7,687,000) that will expire in 2012 (2010: 2011). Other losses can be carried forward indefinitely.

In addition, the Group has unrecognised deductible temporary differences of HK$260,210,000 arising from the difference between the tax written down value and carrying value of property, plant and equipment and prepaid lease payments for certain PRC subsidiaries at 31 December 2011. At 31 December 2010, the Group has unrecognised deductible temporary difference of HK$257,951,000 arising from allowance for bad and doubtful debts and slow moving inventories, as well as the difference between the tax written down value and carrying value of property, plant and equipment and prepaid lease payments for certain PRC subsidiaries at the end of the reporting period. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit for these subsidiaries will be available against which the deductible temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

13. DISCONTINUED OPERATION/DISPOSAL OF SUBSIDIARIES

(a) Disposal of timber operation

On 18 November 2011, the Group entered into an agreement with Intelligence International Limited (the "Purchaser"), a company incorporated in the British Virgin Islands, to dispose all of its entire interests in Wood Art International Corporation ("Wood Art") and its subsidiaries (the "Disposal Group"), which carried out all of the Group's timber operation (the "Disposal"). The Purchaser is an independent third party of the Group. The Disposal was approved by the shareholders of the Company and completed on 29 December 2011.

The loss for the period from discontinued operation is analysed as follows:

	1.1.2011 to 29.12.2011 HK$'000	1.1.2010 to 31.12.2010 HK$'000
Loss of timber operation for the year	(90,306)	(411)
Gain on disposal of timber operation	21,477	–
	(68,829)	(411)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

13. DISCONTINUED OPERATION/DISPOSAL OF SUBSIDIARIES (CONTINUED)

(a) Disposal of timber operation (continued)

The results of the Disposal Group for the period from 1 January 2011 to 29 December 2011, which have been included in the consolidated statement of comprehensive income and presented as discontinued operation were as follows:

	1.1.2011 to 29.12.2011 HK$'000	1.1.2010 to 31.12.2010 HK$'000
Turnover	76,556	101,886
Cost of sales	(116,453)	(96,057)
Gross (loss) profit	(39,897)	5,829
Other income	6,121	12,024
Selling and distribution costs	(6,514)	(8,570)
Administrative expenses	(22,894)	(5,764)
Other expenses	(24,201)	–
Finance costs	(2,921)	(3,930)
Loss for the period/year	(90,306)	(411)
(Loss) profit for the period/year attributable to:		
Owners of the Company	(63,202)	(456)
Non-controlling interests	(27,104)	45
	(90,306)	(411)

During the current year, the Disposal Group contributed an outflow of HK$45,681,000 (2010: inflow of HK$5,355,000) to the Group's net operating cash flows, cash inflow of HK$944,000 (2010: paid HK$1,858,000) in respect of investing activities and cash outflow of HK$2,921,000 (2010: HK$3,691,000) in respect of financing activities.

	HK$'000
Consideration received:	
Cash consideration	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

13. DISCONTINUED OPERATION/DISPOSAL OF SUBSIDIARIES (CONTINUED)

(a) Disposal of timber operation (continued)

Analysis of assets and liabilities of the Disposal Group at the date of disposal and 31 December 2010 were as follows:

	29.12.2011 HK$'000	31.12.2010 HK$'000
Property, plant and equipment	–	–
Prepaid lease payment	–	–
Interests in associates	–	–
Inventories	21,028	44,480
Trade and other receivables	29,643	55,869
Bank balances and cash	23,138	70,796
Total assets	73,809	171,145
Trade and other payables	30,261	20,922
Amount due to ultimate holding company	116,450	–
Amounts due to fellow subsidiaries	296,399	420,772
Amount due to an associate	3,426	3,426
Bank borrowings	80,658	76,468
Tax payable	2,672	2,577
Total liabilities	529,866	524,165
Net liabilities disposed of	(456,057)	(353,020)
Less: Non-controlling interests	21,831	(9,628)
	(434,226)	(362,648)
Gain on disposal of subsidiaries:		
Consideration received and receivable	100	
Net liabilities disposed of	434,226	
Assignment of amount due to ultimate holding company	(116,450)	
Assignment of amounts due to fellow subsidiaries	(296,399)	
Gain on disposal	21,477	
Net cash outflow arising on disposal:		
Cash consideration	100	
Cash and cash equivalent disposed of	(23,138)	
	(23,038)	

Certain comparative figures of the consolidated statement of comprehensive income were restated so as to reflect the results for the discontinued operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

13. DISCONTINUED OPERATION/DISPOSAL OF SUBSIDIARIES (CONTINUED)

(b) Disposal of food processing and distribution operation

On 4 December 2009, the Group entered into an agreement with Sincerity Shine Holdings Limited ("Sincerity Shine"), being a party connected to the Group, to dispose all of its entire interests in Prowealth Holdings Group Limited ("Prowealth") and its subsidiaries (the "Disposal Group"), which carried out all of the Group's food processing and distribution operation (the "Disposal"). Sincerity Shine is beneficially owned as to 50% by Ms. Huang Yu Wei, being the spouse of Mr. Li Geng ("Mr. Li"). Mr. Li was a substantial shareholder of the Company before Mr. Li disposed of his entire interest in the Company on 4 December 2009. Mr. Li is also a director of Prowealth and has beneficial interest in Wise Virtue Holdings Limited ("Wise Virtue"). Wise Virtue was one of the vendors of Prowealth when Prowealth was acquired by the Group in October 2008. The Disposal was subsequently approved by the shareholders of the Company on 18 January 2010 and completed on 19 January 2010.

The loss for the period from discontinued operation is analysed as follows:

	1.1.2010 to 19.1.2010 HK$'000
Loss of food processing and distribution operation for the period	(5,969)
Gain on disposal of food processing and distribution operation	1,631
	(4,338)

The results of the Disposal Group for the period from 1 January 2010 to 19 January 2010, which have been included in the consolidated statement of comprehensive income and presented as discontinued operation were as follows:

	1.1.2010 to 19.1.2010 HK$'000
Turnover	17,636
Cost of sales	(17,012)
Gross profit	624
Other income	688
Selling and distribution costs	(147)
Administrative expenses	(6,863)
Finance costs	(271)
Loss for the period	(5,969)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

13. DISCONTINUED OPERATION/DISPOSAL OF SUBSIDIARIES (CONTINUED)

(b) Disposal of food processing and distribution operation (continued)

During the year ended 31 December 2010, the Disposal Group contributed an outflow of HK$3,814,000 to the Group's net operating cash flows, paid HK$684,000 in respect of investing activities and contributed HK$62,000 in respect of financing activities.

	HK$'000
Consideration received:	
Deposits received in 2009	122,000
Cash consideration receivable of 2010 (note 24)	43,000
Total consideration	165,000

Analysis of assets and liabilities of the Disposal Group at the date of disposal and were as follows:

	19.1.2010 HK$'000
Property, plant and equipment	74,671
Prepaid lease payment	18,819
Inventories	69,693
Trade and other receivables	126,525
Tax recoverable	1,721
Bank balances and cash	8,252
Total assets	299,681
Trade and other payables	33,735
Amounts due to directors	2,828
Bank loans	98,916
Others	833
Total liabilities	136,312
Net assets disposed of	163,369
Gain on disposal of subsidiaries:	
Consideration received and receivable	165,000
Net assets disposed of	(163,369)
Gain on disposal	1,631
Net cash outflow arising on disposal:	
Cash and cash equivalent disposed of in 2010	(8,252)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

14. PROFIT (LOSS) FOR THE YEAR

	Continuing operations		Discontinued operation(s)		Total	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Profit (loss) for the year has been arrived at after charging:						
Directors' remuneration (note a)						
– Fees	**3,279**	2,474	**–**	–	**3,279**	2,474
– Salaries and other benefits	**1,751**	2,620	**–**	–	**1,751**	2,620
– Bonus	**415**	12,000	**–**	–	**415**	12,000
– Other emoluments	**85**	29	**–**	–	**85**	29
	5,530	17,123	**–**	–	**5,530**	17,123
Employees' salaries and benefits expenses	**3,749**	5,927	**12,156**	4,858	**15,905**	10,785
Retirement benefits scheme contributions for staff other than directors (note b)	**118**	73	**1,422**	1,525	**1,540**	1,598
Total staff costs	**9,397**	23,123	**13,578**	6,383	**22,975**	29,506
Allowance for bad and doubtful debts (included in other expenses) (note c)	**–**	–	**21,412**	–	**21,412**	–
Allowance for inventories (included in cost of sales) (note d)	**–**	–	**41,462**	–	**41,462**	–
Amortisation of prepaid lease payments	**117**	–	**–**	326	**117**	326
Auditor's remuneration	**1,580**	1,700	**–**	–	**1,580**	1,700
Cost of inventories recognised as expenses	**–**	–	**74,991**	113,069	**74,991**	113,069
Deposits and prepayments written off (included in other expenses) (note c)	**–**	–	**2,789**	–	**2,789**	–
Depreciation of property, plant and equipment	**1,040**	491	**–**	8,342	**1,040**	8,833
Minimum lease payments under operating leases in respect of rented premises	**1,556**	1,606	**99**	–	**1,655**	1,606
Project management fee (included in other expenses) (note e)	**23,000**	–	**–**	–	**23,000**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

14. PROFIT (LOSS) FOR THE YEAR (CONTINUED)

Notes:

(a) Emoluments of directors and highest paid employees

(i) The emoluments paid or payable to each of the directors were as follows:

	Zhang Xi HK$'000	Ip Cheng Kuong* HK$'000	Catherine Chen HK$'000	Lee Sun Man### HK$'000	Kwan Kam Hung, Jimmy HK$'000	Wah Wang Kei, Jackie HK$'000	Yeung Kwok Yu HK$'000	Chiu Kong HK$'000	Ma Yin Fan HK$'000	Leung Hoi Ying HK$'000	Hong Po Kui, Martin## HK$'000	Yu Pan HK$'000	Chen Guang Lin HK$'000	Fei Philip* HK$'000	Yeung Tsoi San* HK$'000	Total HK$'000
For the year ended 31 December 2011																
Fees	650	303	650	-	-	-	-	600	180	100	120	100	30	243	303	3,279
Salaries and other benefits	-	-	891	-	-	-	260	600	-	-	-	-	-	-	-	1,751
Bonus	-	-	115	-	100	-	100	100	-	-	-	-	-	-	-	415
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retirement benefits scheme contributions	12	-	24	-	-	-	12	24	-	-	-	-	1	6	6	85
	662	303	1,680	-	100	-	372	1,324	180	100	120	100	31	249	309	5,530

	Zhang Xi HK$'000	Catherine Chen HK$'000	Lee Sun Man HK$'000	Kwan Kam Hung, Jimmy HK$'000	Wah Wang Kei, Jackie HK$'000	Yeung Kwok Yu HK$'000	Chiu Kong** HK$'000	Ma Yin Fan HK$'000	Leung Hoi Ying HK$'000	Hong Po Kui, Martin HK$'000	Yu Pan HK$'000	Total HK$'000
For the year ended 31 December 2010												
Fees	777	777	–	–	–	–	300	180	100	240	100	2,474
Salaries and other benefits	–	2,078	–	–	–	–	542	–	–	–	–	2,620
Bonus (note a)	12,000	–	–	–	–	–	–	–	–	–	–	12,000
Share-based payments	–	–	–	–	–	–	–	–	–	–	–	–
Retirement benefits scheme contributions	12	12	–	–	–	–	5	–	–	–	–	29
	12,789	2,867	–	–	–	–	847	180	100	240	100	17,123

Notes:

* The directors were appointed in 2011.

** The directors were appointed in 2010.

\# The directors were resigned in 2010.

\## The director was resigned in 2011.

\### The director deceased in 2011.

(a) The bonus paid to Mr. Zhang Xi during the year ended 31 December 2010 is determined on a one off basis approved by the board of directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

14. PROFIT (LOSS) FOR THE YEAR (CONTINUED)

Notes: (continued)

(a) Emoluments of directors and highest paid employees (continued)

(ii) Of the five individuals with the highest emoluments in the Group, three (2010: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2010: two) individuals are as follows:

	2011 HK$'000	2010 HK$'000
Salaries and other benefits	1,826	940
Retirement benefit scheme contributions	27	31
	1,853	971

Each of their emoluments were not exceeding HK$1,000,000.

(b) Retirement benefits schemes

The Group operates a MPF scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

In addition, pursuant to government regulations, for the Group's employees in the PRC, relevant subsidiaries are required to contribute amounts ranging from approximately 14% to 30% of the basic staff wages to certain retirement benefit schemes. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contribution.

(c) During the current year, the directors of the Company conducted a review of its trade receivables and certain deposits and prepayments were long outstanding and not recoverable, as a result, allowances of HK$21,412,000 and HK$2,789,000, respectively, were charged to the consolidated statement of comprehensive income.

(d) During the current year, a PRC subsidiary of the Group which carried out the Group's timber operation purchased excessive inventories and certain inventories were produced but could not be sold due to the weakened market demand, as a result, the directors of the Company made allowances of HK$41,462,000 on these inventories and were charged to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

14. PROFIT (LOSS) FOR THE YEAR (CONTINUED)

Notes: (continued)

(e) Project management fee

On 29 November 2010, Allywing Investment Limited ("Allywing"), a wholly owned subsidiary of the Group, entered into a Management Agreement with Harvest Day Limited ("Harvest Day") pursuant to which Harvest Day agreed to provide professional management and consultancy services to Allywing in relation to the property development project which the Group is currently developing properties for sale (see Note 22). Ms. Zhang Hua Fang, sister of a shareholder and Joint Chairman of the Company, Mr. Zhang Xi, holds 60% equity interests in Harvest Day.

The fee under the Management Agreement is HK$50,000,000. During the year ended 31 December 2011, the Group has paid in aggregate of HK$23,000,000 to Harvest Day. The second and final instalments are payable by the Group upon certain milestones being achieved in the property development project. The amount of HK$23,000,000 paid by the Group was charged to profit and loss for the year.

15. EARNINGS (LOSS) PER SHARE

For continuing and discontinued operations

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

	2011 HK$'000	2010 HK$'000
Earnings (loss):		
Earnings (loss) for the purpose of basic earnings (loss) per share	60,886	(783,381)
Effect of dilutive potential ordinary shares:		
– Interest on convertible notes	39,733	1,366
– Net gain on derivative financial instruments	(235,964)	(113,212)
– Net loss on warrants	–	(56,757)
Loss for the purpose of diluted loss per share	(135,345)	(951,984)

Number of shares:

	2011	2010 (Restated)
Weighted average number of ordinary shares for purposes of calculation of basic earnings (loss) per share	4,564,292,883	3,496,516,717
Effect of dilutive potential ordinary shares in respect of:		
– Convertible notes	3,960,000,000	384,483,780
– Warrants	–	28,463,474
Weighted average number of ordinary shares for the purpose of calculation of diluted loss per share	8,524,292,883	3,909,463,971

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

15. EARNINGS (LOSS) PER SHARE (CONTINUED)

From continuing operations

The calculation of the basic and diluted earnings (loss) per share from continuing operations attributable to the owners of the Company is based on the following data:

	2011 HK$'000	2010 HK$'000 (Restated)
Earnings (loss) for the year attributable to owners of the Company	60,886	(783,381)
Less: Loss for the year from discontinued operation attributable to owners of the Company	(41,725)	(4,794)
Earnings (loss) for the purpose of basic earnings (loss) per share from continuing operations	102,611	(778,587)
Effect of dilutive potential ordinary shares:		
– Interest on convertible loan notes	39,733	1,366
– Net gain on derivative financial instruments	(235,964)	(113,212)
– Net loss on warrants	–	(56,757)
Loss for the purpose of diluted loss per share from continuing operations	(93,620)	(947,190)

The denominators used are the same as those detailed above for both basic and diluted earnings (loss) per share.

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings (loss) per share for the year ended 31 December 2010 have been retrospectively adjusted for the effect of share consolidation completed on 22 June 2011.

From discontinued operation

Basic loss per share for the discontinued operation is HK0.91 cent per share (2010: HK0.14 cent per share), based on the loss for the year from the discontinued operation attributable to owners of the Company of HK$41,725,000 (2010: HK$4,794,000) and the denominator is detailed above for basic loss per share. Diluted loss per share for the discontinued operation is HK0.49 cent (2010: HK0.13 cent) and the denominator as detailed above for diluted loss per share.

The computation of diluted loss per share for the years ended 31 December 2011 and 31 December 2010 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares during both years. It does not assume the conversion of certain convertible notes for the year ended 31 December 2010 since their assumed conversion would result in a decrease in the loss per share. It does not assume the exercise of the Company's outstanding warrants and conversion of all convertible notes for the year ended 31 December 2010 since their exercise and conversion would result in a decrease in the loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	**Leasehold improvement**	**Plant and equipment**	**Furniture and fittings**	**Motor vehicles**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2010	80,903	639	317,280	344	7,325	406,491
Currency realignment	2,581	61	14,129	10	960	17,741
Additions	–	2,006	2,001	388	1,347	5,742
At 31 December 2010	83,484	2,706	333,410	742	9,632	429,974
Currency realignment	3,606	84	14,403	54	365	18,512
Additions	–	437	–	246	622	1,305
Elimination on disposal of subsidiaries (note 13)	(87,090)	–	(347,813)	(74)	(7,917)	(442,894)
At 31 December 2011	**–**	**3,227**	**–**	**968**	**2,702**	**6,897**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2010	79,626	305	313,184	280	6,457	399,852
Currency realignment	2,565	1	14,078	1	921	17,566
Provided for the year	1,293	265	6,148	103	1,024	8,833
At 31 December 2010	83,484	571	333,410	384	8,402	426,251
Currency realignment	3,606	7	14,403	8	358	18,382
Provided for the year	–	409	–	184	447	1,040
Elimination on disposal of subsidiaries (note 13)	(87,090)	–	(347,813)	(74)	(7,917)	(442,894)
At 31 December 2011	**–**	**987**	**–**	**502**	**1,290**	**2,779**
CARRYING VALUES						
At 31 December 2011	**–**	**2,240**	**–**	**466**	**1,412**	**4,118**
At 31 December 2010	–	2,135	–	358	1,230	3,723

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	Rate per annum (%)
Buildings on land held under short term leases outside Hong Kong	5 to 10
Plant and equipment and furniture and fittings	10 to 33
Motor vehicles	20

Leasehold improvement are depreciated over the remaining unexpired terms of the leases or five years, whichever is shorter.

The net book value of motor vehicles of HK$1,412,000 includes an amount of HK$139,000 (2010: HK$218,000) in respect of assets held under finance leases.

17. PREPAID LEASE PAYMENTS

	2011 HK$'000	2010 HK$'000
The Group's prepaid lease payments comprise:		
Medium term lease in the PRC	5,230	5,150

The prepaid lease payments are amortised over the term of the leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

18. INTERESTS IN ASSOCIATES

	2011 HK$'000	2010 HK$'000
Cost of unlisted investments	–	15,500
Share of other comprehensive income	–	3,588
Share of post-acquisition losses	–	(19,088)
	–	–

Particulars of the Group's associates at 31 December 2010 were as follows:

Name of associate	Place of establishment/ operation	Percentage of issued share capital/registered capital held by the Group 2011 %	2010 %	Issued share capital/ registered capital	Principal activities
瀋陽福陽人造板有限公司 Shenyang Fuyang Wood-Basal Panel Ltd. (Note)	PRC	–	40.0	US$5,000,000	Manufacture and sale of wooden products and inactive since 2007
天津福津木業有限公司 Tianjin Fortune Timber Co., Ltd. (Note)	PRC	–	49.5	US$17,453,021	Manufacture and sale of wooden products and inactive since 2007

Note: Such companies are Sino-foreign equity joint ventures. The Group disposed of its interests in associates through its disposal of its timber operation on 29 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

18. INTERESTS IN ASSOCIATES (CONTINUED)

The summarised financial information in respect of the Group's associates was set out below:

	2011 HK$'000	2010 HK$'000
Total assets	–	8,665
Total liabilities	–	(7,967)
Net assets	–	698
Group's share of net assets	–	–
Revenue	–	–
Result for the year	–	–
Group's share of result for the year	–	–

19. OTHER INVESTMENTS

The investments are classified as available-for-sale investments comprise:

	HK$'000
Equity securities	
Costs of investments	8,851
Less: Impairment loss recognised	(8,851)
At 1 January 2010, 31 December 2010 and 31 December 2011	–

The balance represents investments in unlisted equity securities issued by private entities incorporated in Taiwan and the PRC. It is measured at cost less impairment at the end of the reporting period because the directors of the Company are of the opinion that their fair values cannot be measured reliably as there is no active market information available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

20. CLUB DEBENTURE

	HK$'000
Cost	287
Less: Impairment loss recognised	(287)
At 1 January 2010, 31 December 2010 and 31 December 2011	–

The fair value of the Group's club debenture as at 31 December 2010 and 31 December 2011 was nil. The valuation was determined by reference to recent market prices for similar debentures.

21. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	–	14,800
Finished goods	–	30,578
	–	45,378

22. PROPERTIES UNDER DEVELOPMENT

Properties under development are situated in the PRC and are held for sales after completion. The properties under development at the end of the reporting period represents development costs incurred for construction and land use rights for terms expiring in year 2048. The amount is not expected to be realised within 12 months after the end of the reporting period.

23. HELD-FOR-TRADING INVESTMENTS

	2011 HK$'000	2010 HK$'000
Held-for-trading investments include:		
Equity securities listed in Hong Kong	43,178	95,002

Fair values are determined with reference to quoted market bid prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

24. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables, net of allowance	–	15,271
Bills receivables	–	1,339
Other receivables	297	18,972
Consideration receivable for disposal of food processing and distribution operation (note 13)	25,000	43,000
	25,297	78,582

Payment terms with customers are largely on credit. Invoices are normally payable within 30 to 90 days after issuance.

The consideration receivable for disposal of Prowealth was due in July 2011. Subsequent to 31 December 2011, Sincerity Shine has settled an additional amount of HK$6,000,000. Further arrangement has been made with Sincerity Shine to extend the repayment of the remaining outstanding consideration to April 2012.

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

	2011 HK$'000	2010 HK$'000
0 – 90 days	–	15,271

All bills receivables of the Group are aged within 60 days at the end of the reporting period.

At 31 December 2010, included in the Group's trade receivable balance were debtors with aggregate carrying amount of HK$401,000 which were past due at the end of the reporting period for which the Group had not provided for impairment loss as the management considered these debts were of good quality and good repayment history. The Group did not hold any collateral over these balances. The average age of these receivables was 53 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following is an aged analysis of trade receivables which are past due but not impaired at the end of the reporting period:

	2011 **HK$'000**	2010 HK$'000
0 – 90 days	**–**	401

The Group had provided fully for all receivables that are past due beyond 1 year because historical experience was such that these receivables were generally not recoverable. Allowance on trade receivables over 270 days were fully provided by reference to past default experience and objective evidences of impairment.

In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the end of the reporting period. The directors of the Company considered that the Group has no significant concentration of credit risk at 31 December 2010, with exposure spread over a number of counterparties and customers.

Movement in the allowance for doubtful debts

	2011 **HK$'000**	2010 HK$'000
At beginning of the year	**10,529**	10,529
Impairment loss recognised on received	**21,412**	–
Eliminated on disposal of subsidiaries	**(31,941)**	–
At end of the year	**–**	10,529

Included in the allowance for doubtful debts as at 31 December 2010 are individually impaired trade receivables with an aggregate balance of HK$10,529,000 which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movement in the allowance for doubtful debts (continued)

Included in the trade and other receivables are the following amounts denominated in currencies other than the functional currency of the group entities to which they relate:

	2011 HK$'000	2010 HK$'000
Hong Kong Dollars	25,090	44,459

25. BANK BALANCES AND CASH

Bank balances and cash comprise cash and short-term bank deposits with original maturity of three months or less, and carry interest ranging from 0.01% to 0.5% (2010: 0.01% to 1.17%) per annum.

At 31 December 2011 and 31 December 2010, the Group had bank balances and cash that were in RMB, which is not freely convertible into other currencies or were subject to exchange controls in the PRC amounting to approximately HK$88,000 and HK$69,245,000, respectively.

Included in the bank balances and cash are the following amounts denominated in currencies other than the functional currency of the group entities to which they relate:

	2011 HK$'000	2010 HK$'000
United States Dollars	–	4,154
Hong Kong Dollars	16,287	41,598

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

26. TRADE AND OTHER PAYABLES/AMOUNTS DUE TO DIRECTORS OF SUBSIDIARIES/AMOUNTS DUE TO NON-CONTROLLING SHARHOLDERS OF SUBSIDIARIES

	2011 HK$'000	2010 HK$'000
Trade payables	4,885	21,065
Dividend payable to minority shareholder of a subsidiary	–	20,648
Amount due to former director of a subsidiary	5,469	4,934
Accrued expenses and other payables	27,407	29,799
Accrued costs for construction work	14,383	–
	52,144	76,446

The amount(s) due to non-controlling shareholders of subsidiaries/former director of a subsidiary and dividend payable to non-controlling shareholder of a subsidiary are unsecured, interest-free and repayable on demand.

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

	2011 HK$'000	2010 HK$'000
0 – 90 days	–	9,791
91 – 180 days	–	–
More than 180 days	4,885	11,274
	4,885	21,065

Included in the trade and other payables are the following amounts denominated in currencies other than the functional currency of the group entities to which they relate:

	2011 HK$'000	2010 HK$'000
Hong Kong Dollars	16,215	15,700

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

27. AMOUNTS DUE TO ASSOCIATES

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

28. OBLIGATION UNDER A FINANCE LEASE

During the year ended 31 December 2009, the Group has leased certain of its motor vehicles under finance leases. The lease term is 3 years. Interest rates obligation under finance leases is fixed at 8.84% per annum.

	Minimum lease payments		**Present value of minimum lease payments**	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance lease				
Within one year	**81**	91	**77**	77
In more than one year but not more than two years	**–**	77	**–**	77
	81	168	**77**	154
Less: Future finance charges	**(4)**	(14)	**–**	–
Present value of lease obligations	**77**	154	**77**	154
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(77)**	(77)
Amount due for settlement after 12 months			**–**	77

The Group's obligation under a finance lease is secured by the lessor's charge over the leased assets and is denominated in Hong Kong Dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

29. CONVERTIBLE NOTES

(i) Sun Boom CN and Wise Virtue CN

On 17 October 2008, the Company issued convertible notes to Sun Boom Limited ("Sun Boom"), an independent third party with principal amount of HK$80,646,500 ("Sun Boom CN") and to Wise Virtue with the principal amount of HK$80,265,260 ("Wise Virtue CN"). Both Sun Boom CN and Wise Virtue CN bear coupon interest at 6% per annum payable semi-annually. Sun Boom CN and Wise Virtue CN are denominated in Hong Kong dollars with a conversion period of 60 months from the issue date and can be converted into ordinary shares of the Company at HK$0.086 per share, subject to the usual anti-dilution adjustments and certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivative issues. Sun Boom CN and Wise Virtue CN will mature on 16 October 2013 and the holder has the right to require the issuer to redeem the note at par any time before the maturity date.

Both Sun Boom CN and Wise Virtue CN contain three components, the liability component, conversion option and early redemption option. The conversion option gives the holder's right to convert the Sun Boom CN and Wise Virtue CN into ordinary shares of the Company. However since the conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, the conversion option is accounted for as a derivative liability. The early redemption option gives the holder the right to require the issuer to redeem the note at par any time before maturity. Both conversion option derivative and early redemption option are measured at fair value with changes in fair value recognised in profit or loss.

The fair value of the liability component upon the issuance of the notes were calculated at the present value of the coupon interest payments and the principal amount. The discount rate used in the calculation was 21.4% represents the cost of debt applicable to the Company at the issue date. The effective interest rate of the liability component is 21.4%.

On 10 December 2009, Sun Boom and Wise Virtue transferred Sun Boom CN and Wise Virtue CN to a private investment institution independent of the Group. On 29 December 2009, the conversion price of the Sun Boom CN and Wise Virtue CN was adjusted to HK$0.047 per share as a result of the issue of Fulbond Convertible Notes (see note 29(ii)). Subsequent to the adjustment, on 30 December 2009, the holder of the Sun Boom CN exercised the option to require the Company to redeem part of the Sun Boom CN at principal amount of HK$30,646,500.

As at 31 December 2009, the liability components of Sun Boom CN and Wise Virtue CN together with the embedded conversion options and early redemption options with the aggregate carrying amount of HK$207,139,000 are classified as current liability as the early redemption option gives the holder the right to require the issuer to redeem the note at par any time before maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

29. CONVERTIBLE NOTES (CONTINUED)

(i) Sun Boom CN and Wise Virtue CN (continued)

On 14 January 2010, the conversion price of Sun Boom CN and Wise Virtue CN was further adjusted to HK$0.044 per share as a result of the partial conversion of Fulbond Convertible Notes (see note 29 (ii)). As a result of the change in term of the notes, a gain of HK$5,050,000 was recognised in the profit or loss.

On 4 March 2010, the holders of Sun Boom CN and Wise Virtue CN have exercised the option to require the Company to redeem the remaining portion of Sun Boom CN at the principal amount of HK$50,000,000 and full portion of Wise Virtue CN at the principal amount of HK$80,265,260. During the period up to the date of redemption, a fair value gain on embedded conversion option and early redemption option of HK$34,507,000 was recognised in the profit or loss. The aggregate carrying value of the liability components and fair value of the conversion option derivative and early redemption options of the remaining portion of Sun Boom CN and Wise Virtue CN at the date of redemption amounted to HK$167,187,000. A gain on early redemption of HK$37,317,000 was recognised in profit or loss.

The fair values of the embedded conversion options and early redemption option were determined using binomial option pricing model, respectively, and the inputs into the model at each respective date were as follows:

	(Date of redemption) 4.3.2010	31.12.2009
Conversion price	HK$0.044	HK$0.047
Share price	HK$0.033	HK$0.049
Expected volatility	98.55%	98.47%
Remaining life	3.62 years	3.8 years
Risk-free rate	1.167%	1.459%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

29. CONVERTIBLE NOTES (CONTINUED)

(ii) Fulbond Convertible Note

On 6 August 2009, the Company entered into a placing agreement (the "Fulbond CN Placing Agreement") with a placing agent whereby the Company agreed, subject to conditions (including the Stock Exchange's and shareholders' approval) issue zero coupon convertible notes in a maximum aggregate principal amount of HK$800,000,000 (the "Fulbond Convertible Notes") which can be converted into ordinary shares of the Company at a conversion price of HK$0.01 per share. The placing shall proceed in two tranches namely, the First Tranche Fulbond Convertible Notes and the Second Tranche Fulbond Convertible Notes. Both the First Tranche Fulbond Convertible Notes (up to the aggregate principal amount of HK$450,000,000) and the Second Tranche Fulbond Convertible Notes (up to the aggregate principal amount of HK$350,000,000) fall under the placing and are subject to the same terms and conditions under the Fulbond CN Placing Agreement.

The Fulbond Convertible Notes are denominated in Hong Kong dollars with a conversion period of 36 months from the first issue date and can be converted into ordinary shares of the Company at HK$0.01 per share, and may be adjusted upon occurrence of adjustment events, which include consolidation or sub-division of shares, capitalisation of profits or reserves, capital distributions in cash or specie, rights issues or grant of options or warrants to subscribe for new shares at a price which is less than 60% of the market price, issue for cash of securities which are convertible into or exchangeable for or carry rights of subscription for new shares or modification of rights of conversion or exchange or subscription attached to such securities such that the total effective consideration per share initially receivable for such securities is less than 80% of the market price, issue shares for cash at a price per share which is less than 80% of the market price, issue shares for the acquisition of assets at a total effective consideration per share which is less than 80% of the market price, and will in any event not be adjusted below the par value of the share.

The Fulbond Convertible Notes contain three components, the liability component, conversion option and issuer's early redemption option. The conversion option gives the holder's right at any time to convert the Fulbond Convertible Notes into ordinary shares of the Company. However since the conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, the conversion option is accounted for as a derivative liability. The early redemption option gives the issuer the right to redeem the note at par at any time before maturity. Both conversion option derivative and early redemption option are measured at fair value with changes in fair value recognised in profit or loss.

The fair value of the liability component upon the issuance of the note was calculated at the present value of the principal amount. The Fulbond Convertible Notes can only be redeemed at par at the discretion of the issuer in whole or in part anytime before the maturity date. All tranches of the Fulbond Convertible Notes will mature on 28 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

29. CONVERTIBLE NOTES (CONTINUED)

(ii) Fulbond Convertible Note (continued)

On 21 June 2011, the Company obtained approval from its shareholders to the proposed reorganisation of the share capital of the Company (the "Capital Re-organisation"), which involves share consolidation every 10 existing shares of par value US$0.001 (equivalent to HK$0.01) into one consolidated share of par value US$0.01 (equivalent to HK$0.10) and capital reduction of the par value of each issued consolidated share from US$0.01 (equivalent to HK$0.10) to US$0.001 (equivalent to HK$0.01) by cancellation of US$0.009 (equivalent to HK$0.09) of the paid up capital of each issued consolidated share (see note 17). The original conversion price was adjusted from HK$0.01 per share to HK$0.10 per share as a result of Capital Re-organisation.

First Tranche Fulbond Convertible Notes

On 29 December 2009, the Company partially issued the First Tranche Fulbond Convertible Notes with the principal amount of HK$200,000,000 (the "1st HK$200M Fulbond CN") to an independent third party. The effective interest rate of the liability component and discount rate used is 15.24% which represents the cost of debt applicable to the Company at the issue date.

On 14 January 2010, the Company issued the remaining portion of the First Tranche Fulbond Convertible Notes with principal amount of HK$250,000,000 (the "2nd HK$250M Fulbond CN") to an independent third party. The effective interest rate of the liability component and discount rate used is 12.66% which represents the cost of debt applicable to the Company at the issue date.

On 12 January 2010 and 11 August 2010, certain holders of the 1st HK$200M Fulbond CN, gave notice to the Company to convert the 1st HK$200M Fulbond CN in aggregate principal amount of HK$140,000,000 to ordinary shares of the Company. During the period up to each respective date of conversion, a loss on fair value change of embedded conversion option and early redemption option in aggregate of HK$320,409,000 was recognised in the profit or loss. On 12 January 2010 and 11 August 2010, the aggregate carrying value of the liability component and the fair value of the embedded conversion option and early redemption option are approximately HK$497,161,000 and HK$78,225,000, respectively, and were transferred to equity.

On 5 May 2010, 18 May 2010 and 11 August 2010, certain holders of the 2nd HK$250M Fulbond CN gave notice to the Company to convert the 2nd HK$250M Fulbond CN in aggregate principal amount of HK$130,000,000 to ordinary shares of the Company. During the period up to each respective date of conversion, a gain on fair value change of embedded conversion option and early redemption option in aggregate of HK$70,983,000 was recognised in the profit or loss. On 5 May 2010, 18 May 2010 and 11 August 2010, the aggregate carrying value of the liability component and the fair value of the embedded conversion option and early redemption option are approximately HK$62,060,000, HK$153,952,000 and HK$59,440,000, respectively, and were transferred to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

29. CONVERTIBLE NOTES (CONTINUED)

(ii) Fulbond Convertible Note (continued)

First Tranche Fulbond Convertible Notes (continued)

The aggregate principal amount under the First Tranche Fulbond Convertible Notes outstanding at 31 December 2011 and 31 December 2010 amounts to HK$180,000,000 and the carrying amount of the liability components and the fair values of the embedded conversion option and early redemption option in aggregate are approximately HK$159,950,000 (2010: HK$140,629,000) and HK$112,937,000 (2010: HK$220,197,000), respectively. During the year ended 31 December 2011, an aggregate fair value gain on embedded conversion option and early redemption option of HK$107,260,000 (2010: HK$140,146,000) in respect of the outstanding First Tranche Fulbond Convertible Notes was recognised in the profit or loss.

The fair values of the embedded conversion option and the issuer's early redemption option were determined using binomial option pricing model, and the inputs into the model at each respective date were as follows:

	31.12.2011	31.12.2010	(Date of conversion) 11.8.2010	(Date of conversion) 18.5.2010	(Date of conversion) 5.5.2010	14.1.2010	(Date of conversion) 12.1.2010	31.12.2009	29.12.2009
Conversion price	HK$0.10	HK$0.01	HK$0.01	HK$0.01	HK$0.01	HK$0.01	HK$0.01	HK$0.01	HK$0.01
Share price, after adjusting for dilution	HK$0.143	HK$0.020	HK$0.019	HK$0.020	HK$0.024	HK$0.028	HK$0.050	HK$0.019	HK$0.017
Expected volatility	50.27%	45.37%	64.09%	66.10%	65.87%	69.03%	68.80%	62.01%	62.01%
Remaining life	0.99 year	1.99 years	2.38 years	2.62 years	2.65 years	2.96 years	2.96 years	2.99 years	3 years
Risk-free rate	0.25%	0.585%	0.409%	0.81%	0.984%	0.995%	1.004%	1.177%	1.136%

Second Tranche Fulbond Convertible Notes

On 10 August 2010, the Company issued the first portion of the Second Tranche Fulbond Convertible Notes with principal amount of HK$250,000,000 (the "3rd HK$250M Fulbond CN") to an independent third party. The effective interest rate of the liability component and the discount rate used is 10.61% which represents the cost of debt applicable to the Company at the issue date.

On 11 August 2010, certain holders of the 3rd HK$250M Fulbond CN, have given notice to the Company to convert certain the 3rd HK$250M Fulbond CN in aggregate principal amount of HK$34,000,000 to ordinary shares of the Company. During the period up to the date of conversion, a loss on fair value change of embedded conversion option and early redemption option in aggregate of HK$9,552,000 was recognised in the profit or loss. On 11 August 2010, the aggregate carrying value of the liability component and the fair value of the embedded conversion option and early redemption option is approximately HK$67,893,000 and was transferred to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

29. CONVERTIBLE NOTES (CONTINUED)

(ii) Fulbond Convertible Note (continued)

Second Tranche Fulbond Convertible Notes (continued)

The aggregate principal amount under the Second Tranche Fulbond Convertible Notes outstanding at 31 December 2011 and 31 December 2010 amounts to HK$216,000,000 and the carrying amount of the liability components and the fair values of the embedded conversion option and early redemption option in aggregate are approximately HK$187,386,000 (2010: HK$166,974,000) and HK$135,524,000 (2010: HK$264,228,000) respectively. During the year ended 31 December 2011, an aggregate fair value gain of HK$128,704,000 (2010: a loss of HK$59,576,000) in respect of the outstanding Second Tranche Fulbond Convertible Notes was recognised in the profit or loss.

The remaining unissued tranche of Fulbond Convertible Notes of HK$100,000,000 expired in October 2010.

The fair values of the embedded conversion option and the issuer's early redemption option were determined using binomial option pricing model, respectively, and the inputs into the model at each respective date were as follows:

	31.12.2011	31.12.2010	(Date of conversion) 11.8.2010	10.8.2010
Conversion price	HK$0.10	HK$0.01	HK$0.01	HK$0.01
Share price, after adjusting for dilution	HK$0.143	HK$0.020	HK$0.019	HK$0.016
Expected volatility	50.27%	45.37%	64.09%	64.16%
Remaining life	0.99 year	1.99 years	2.38 years	2.39 years
Risk-free rate	0.250%	0.585%	0.409%	0.448%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

29. CONVERTIBLE NOTES (CONTINUED)

(ii) Fulbond Convertible Note (continued)

Second Tranche Fulbond Convertible Notes (continued)

The movements of the components of Sun Boom CN, Wise Virtue CN and First and Second Tranche Fulbond Convertible Notes during both years are set out below:

	Principal amount HK$'000	Liability component HK$'000	Embedded derivatives HK$'000	Total HK$'000
At 1 January 2010	330,265	213,195	353,333	566,528
Issued during the year	500,000	367,035	780,351	1,147,386
Adjustment	–	–	(5,050)	(5,050)
Change in fair value	–	–	143,901	143,901
Interest charged (net of interest paid)	–	25,181	–	25,181
Redeemed during the year	(130,265)	(81,891)	(85,296)	(167,187)
Converted during the year	(304,000)	(215,917)	(702,814)	(918,731)
At 31 December 2010	396,000	307,603	484,425	792,028
Change in fair value	–	–	(235,964)	(235,964)
Interest charged	–	39,733	–	39,733
At 31 December 2011	396,000	347,336	248,461	595,797

Analysed for reporting purpose as:

	2011 HK$'000	2010 HK$'000
Current liabilities	**595,797**	–
Non-current liabilities	**–**	792,028
	595,797	792,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

30. WARRANTS

On 28 January 2008, the Company issued 1,500,000,000 unlisted warrants at price of HK$0.001 per warrant to six placees, all being independent third parties to the Group and each warrant entitles its holder to subscribe for one ordinary share of US$0.001 each of the Company ("Subscription Share") at the initial subscription price of HK$0.074 per Subscription Share at any time during the period of 30 months commencing from the date of issue of the warrants.

On 6 August 2009, the subscription price under the terms of the warrants was adjusted downwards from HK$0.074 to HK$0.026 with effect from 6 August 2009 as a result of the placing of the Fulbond Convertible Notes (see note 29) and the total number of warrants was adjusted to 4,269,230,769. Subsequent to the price adjustments, in 2009, registered holders of 1,058,769,221 warrants exercised their rights to subscribe for 1,058,769,221 ordinary shares of the Company at HK$0.026 per share.

At 31 December 2009, the Company had outstanding 3,210,461,548 warrants and their aggregate fair value was approximately HK$80,833,000.

During the year ended 31 December 2010, registered holders of 1,229,538,456 warrants exercised their rights to subscribe for 1,229,538,456 ordinary shares of the Company at HK$0.026 per share. The fair value gain, representing the fair value changes of the warrants from 1 January 2010 to the dates immediately prior to each respective exercise dates, was approximately HK$6,828,000 and had been recognised in profit and loss in the current year. The remaining outstanding 1,980,923,092 warrants expired on 28 July 2010.

At 31 December 2009, the fair value of the outstanding warrants was determined using the Black-Scholes Option Pricing Model and the inputs into the model were as follows:

	31.12.2009
Exercise price	HK$0.026
Share price	HK$0.044
Expected volatility	90.36%
Remaining life	7 months
Risk free rate	0.167%

During the year ended 31 December 2010, an aggregate fair value gain of HK$50,323,000 in respect of the warrants which expired on 28 July 2010 has been recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

31. BANK AND OTHER BORROWINGS

	2011 HK$'000	2010 HK$'000
Secured loans from banks and other financial institutions (note a)	–	76,468
Unsecured three-year loan notes (note b)	1,523	3,523
	1,523	79,991

All bank and other borrowings at 31 December 2011 and 31 December 2010 are repayable within one year.

Notes:

(a) The loans from banks and other financial institutions carry interests rate variable at per annum best lending rate of People's Bank of China.

(b) According to the corporate restructuring of the Company and its subsidiaries which was completed on 30 March 2001, the creditors of the Group received three-year loan notes from the Company with an aggregate face value of HK$34,100,000 which carry fixed interest at a rate of 7% per annum. The three-year loan notes are repayable in six equal semi-annual instalments. The repayment of the remaining outstanding installment of the loan notes amounting to HK$1,523,000 has been extended to March 2012.

Included in the borrowings are the following amounts denominated in currencies other than the functional currency of the group entities to which they relate:

	2011 HK$'000	2010 HK$'000
Hong Kong Dollars	1,523	3,523

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

32. SHARE CAPITAL

	Number of shares		Amount in US$		As presented	
	2011	2010	**2011**	2010	**2011**	2010
			US$'000	US$'000	**HK$'000**	HK$'000
Ordinary share of US$0.001 each						
Authorised:						
At 1 January 2010,						
31 December 2010 and 2011	**100,000,000,000**	100,000,000,000	**100,000**	100,000	**775,000**	775,000
Issues and fully paid						
At beginning of the year	**45,642,927,432**	14,013,388,976	**45,643**	14,013	**354,722**	109,008
Issue of shares upon conversion of						
convertible notes	**–**	30,400,000,000	**–**	30,400	**–**	236,167
Exercise of warrant subscription rights	**–**	1,229,538,456	**–**	1,230	**–**	9,547
Issue of share upon exercise of						
share options (note a)	**2,568**	–	**–**	–	**–**	–
Adjustment on Capital Re-organisation						
(note b)	**(41,078,637,000)**	–	**(41,079)**	–	**(319,257)**	–
At end of the year	**4,564,293,000**	45,642,927,432	**4,564**	45,643	**35,465**	354,722

Notes:

(a) 2,628 share options granted to executives and employees were exercised on 16 June 2011 at an exercise price of HK$0.41 (Note 34).

(b) Pursuant to special resolution passed by the shareholders in the special general meeting on 21 June 2011, the Company approved the following capital re-organisation:

- Consolidation of every 10 existing shares of US$0.001 each in the issued share capital of the Company into one consolidated share of par value US$0.01 ("Share Consolidation");
- Upon the Share Consolidation becoming effective, the par value of each issued consolidated share is reduced from US$0.01 to US$0.001 by cancellation of US$0.009 of the paid-up capital of each issued consolidated share ("Capital Reduction"); and
- Upon Share Consolidation and the Capital Reduction becoming effective, the entire amount of the share premium account is cancelled.

The above capital re-organisation was in effect from 22 June 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

33. ACQUISITION OF SUBSIDIARY

On 1 June 2010, a wholly-owned subsidiary of the Company, Good Base Investments Limited (the "Good Base") entered into an agreement with a shareholder and Chairman of the Company, Mr. Zhang, to acquire the entire equity interest in Allywing Investments Limited ("Allywing") from Mr. Zhang (the "Allywing Acquisition Agreement"). Pursuant to the Allywing Acquisition Agreement, Good Base has conditionally agreed to acquire the entire issued share capital of Allywing and the shareholder's loan owing to Mr. Zhang for a total cash consideration of RMB284,848,920 (approximately HK$325,497,000).

On 13 August 2010, Good Base entered into a supplemental agreement (the "Supplemental Agreement") with Mr. Zhang, pursuant to which the settlement of the cash consideration paid to Mr. Zhang was reduced to RMB260,848,920 (approximately HK$298,074,000) and the reduced amount of RMB24,000,000 (approximately HK$27,423,000), pursuant to the Supplemental Agreement, was retained by the Purchaser and applied to satisfy the remaining amount of capital injection agreed to be made by Mr. Zhang pursuant to the Allywing Acquisition Agreement as part of the precedent conditions.

Upon fulfillment of the precedent conditions pursuant to the Allywing Acquisition Agreement as summarised in the Company's announcement dated 9 June 2010 and the Supplemental Agreement, the acquisition was completed on 13 August 2010. At the date of acquisition, Allywing had 60% equity interest in Xian Yuansheng Enterprises Limited ("Xian Yuansheng"), a company established in the PRC (Allywing and Xian Yuansheng together collectively referred to as the "Allywing Group"), which principally holds a piece of land located in Xian, the PRC (the "Land") and the Allywing Group has no other business or operations, therefore the acquisition had been accounted for as acquisition of assets. The Group intends to engage in the business of property development upon the acquisition of the Land.

Consideration transferred

	HK$'000
Cash	298,074

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

33. ACQUISITION OF SUBSIDIARY (CONTINUED)

The net assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Property under development	509,327
Other receivables and prepayments	7,142
Bank balances and cash	1,312
Other payables	(32)
Amount due to a shareholder	(6,900)
Amount due to a director of a subsidiary	(2,285)
	508,564
Less: Non-controlling interest	(217,390)
	291,174
Assignment of shareholder's loan to the Group	6,900
	298,074
Net cash outflow arising on acquisition:	
Cash consideration paid	298,074
Less: Cash and cash equivalent acquired	(1,312)
	296,762

The Allywing Group has no revenue and contributed a loss of approximately HK$3,962,000 to the Group's loss for the period between the date of acquisition and 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

34. SHARE OPTION SCHEMES

A share option scheme was adopted by the Company on 19 November 2001 (the "Share Option Scheme"). Pursuant to the Share Option Scheme, the directors of the Company may, at their discretion, grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group to subscribe for shares in the Company at a price determined by the directors and not less than the highest of:

(i) The closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the options;

(ii) The average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the options; and

(iii) The nominal value of the shares of the Company on the date of grant.

At 31 December 2011, all shares in respect of which options had been granted was expired (31 December 2010: 201,557,000 representing 0.44% of the shares of the Company in issue). The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 14 days of that date of grant, upon payment of HK$1 in aggregate as consideration for the options granted. Vesting periods are determined by the board of directors on each grant date. Options are lapsed if the employee leaves the Group before the option vest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

34. SHARE OPTION SCHEMES (CONTINUED)

Details of the movements of the share options granted under the Share Option Scheme during the year are as follows:

				Number of share options				
Date of grant	Vesting period	Exercise price HK$	Exercise period	Outstanding at 1 January 2010 and 31 December 2010	Exercised during the year	Adjusted in capital reorganisation	Expired during the year (Note 2)	Outstanding at 31 December 2011
Directors								
14 July 2008	– (Note 1)	0.041	14 July 2008- 13 July 2011	183,234,000	–	(164,910,600)	(18,323,400)	–
Executives and employees								
14 July 2008	– (Note 1)	0.041	14 July 2008- 13 July 2011	18,323,000	(2,568)	(16,488,389)	(1,832,043)	–
Grand Total				201,557,000	(2,568)	(181,398,989)	(20,155,443)	–

Note:

(1) The share options are exercisable immediately after the grant.

No additional option was granted during the years ended 31 December 2010 and 31 December 2011.

35. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had outstanding commitment of future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	2011 HK$'000	2010 HK$'000
Within one year	**1,809**	699
In the second to fifth year inclusive	**1,055**	225
	2,864	924

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for lease term of 1 to 2 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

36. CAPITAL COMMITMENT

	2011	2010
	HK$'000	HK$'000
Capital expenditure in respect of properties under development contracted for but not provided in the consolidated financial statements	**84,365**	–

37. PLEDGE OF ASSETS

At 31 December 2011, the Group had not pledged any assets, whereas, at 31 December 2010, the Group had pledged certain property, plant and equipment and land use rights with aggregate carrying amounts of HK$9,347,000 respectively to various banks and other financial institutions for securing the loans and general credit facilities granted to the Group.

38. RELATED PARTY TRANSACTIONS

The key management personnel are the directors of the Company. The details of their remunerations are set out in note 14.

The Group also had balances and transactions with related parties at the end of the reporting period which set out in note 27.

39. EVENT AFTER THE REPORTING PERIOD

On 28 March 2012, certain convertible note holders have given notice to the Company to exercise their option to convert their convertible notes with an aggregate amount of HK$306,000,000 into new shares of the Company. The directors of the Company is in the process of assessing the relevant financial impact.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2011 and 31 December 2010 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/registered capital held		Issued and fully paid capital/ registered capital	Principal activities
			2011 %	2010 %		
Able Force Investments Limited	Hong Kong	Hong Kong	100	–	HK$1	Investment in securities
Allywing Investment Limited	British Virgin Islands	Hong Kong	100	–	US$1	Investment holding
Fulbond Business Services Limited	Hong Kong	Hong Kong	100	100	HK$2	Provision of management services
Fulbond Corporate Management Limited	Hong Kong	Hong Kong	100	100	Ordinary HK$10,000	Provision of management services
Fulbond Holdings Limited# (formerly China New Energy Power Group Limited)	Hong Kong	Hong Kong	100	–	HK$100	Inactive
Fulbond Investments Limited	British Virgin Islands	Hong Kong	100	100	US$1	Investment holding
Good Base Investments Limited	Hong Kong	Hong Kong	100	–	HK$100	Investment holding
Senbond Building Materials Limited	Hong Kong	Hong Kong	100	100	Ordinary HK$200 and deferred* HK$10,000	Inactive
吉林福敦木業有限公司 Jilin Fudun Timber Co., Ltd. (Note 1)##	PRC	PRC	–	67	RMB223,158,165	Manufacture of and trading in wooden products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/registered capital held		Issued and fully paid capital/ registered capital	Principal activities
			2011 %	2010 %		
Ta Fu Flooring Company Limited##	Hong Kong	Hong Kong	–	100	Ordinary HK$200 and deferred* HK$1,000,000	Investment holding
Ta Fu Furniture Co., Limited##	Hong Kong	Hong Kong	–	100	Ordinary HK$20 and deferred* HK$20	Investment holding
Ta Fu Strategic Investment Limited	British Virgin Islands	Hong Kong	100	100	US$10,000	Investment holding
Ta Fu Timber Company Limited##	Hong Kong	Hong Kong	–	100	Ordinary HK$200 and deferred * HK$5,000,000	Investment holding
Wood Art International Corporation##	British Virgin Islands	Hong Kong	–	100	US$10,000	Investment holding
西安遠聲實業有限公司 Xi'an Yuansheng Enterprises Limited (Note 1)	PRC	PRC	60	60	RMB50,000,000	Property development

* The deferred shares are non-voting and are not entitled to participate in the distribution of profits in any financial year and are only entitled to a return of capital on liquidation when the net assets of the relevant company available for distribution are in excess of HK$100,000,000,000,000,000.

Set up during the year ended 31 December 2011.

Disposed during the year ended 31 December 2011.

Notes:

(1) The companies are Sino-foreign equity joint ventures.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or constituted 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.

None of the subsidiaries had any debt securities outstanding at the end of the reporting period or at any time during the year.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**125**	119,552	415,873	281,387	186,124
Profit (loss) before taxation	**30,656**	(785,047)	(426,211)	(244,528)	(63,395)
Taxation	**–**	–	6,874	(5,441)	(4,542)
Profit (loss) for the year	**30,656**	(785,047)	(419,337)	(249,969)	(67,937)
Attributable to:					
Owners of the Company	**60,886**	(783,381)	(417,547)	(226,099)	(57,777)
Non-controlling interests	**(30,230)**	(1,666)	(1,790)	(23,870)	(10,160)
	30,656	(785,047)	(419,337)	(249,969)	(67,937)

ASSETS AND LIABILITIES

	At 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**678,272**	920,533	622,252	511,988	242,854
Total liabilities	**(671,603)**	(968,964)	(1,084,041)	(602,500)	(165,486)
Net assets (liabilities)	**6,669**	(48,431)	(461,789)	(90,512)	77,368
Attributable to:					
Owners of the Company	**(208,684)**	(270,227)	(465,539)	(99,797)	50,437
Non-controlling interests	**215,353**	221,796	3,750	9,285	26,931
	6,669	(48,431)	(461,789)	(90,512)	77,368