INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF HARMONY ASSET LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Harmony Asset Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 3 to 76, which comprise the consolidated and company statements of financial position as at 31st December, 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, 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 International Standards on Auditing. 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.

INDEPENDENT AUDITOR'S REPORT

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.

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 financial positions of the Group and of the Company as at 31st December, 2012 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Ltd

BDO Limited
Certified Public Accountants
Wong Chi Wai
Practising Certificate Number P04945

Hong Kong, 28th March, 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December

	Note	2012 HK$	2011 HK$
Turnover	5	10,275,453	16,157,407
Other revenue	5	136,592	27,575
Other gains and (losses)	5	16,550,330	(44,507,917)
		26,962,375	(28,322,935)
Employee benefits expenses		(3,431,119)	(3,176,136)
Depreciation of property, plant and equipment		(707,068)	(662,295)
Other operating expenses		(13,293,216)	(11,971,351)
Share of loss of an associate	14	–	(1,571,724)
Profit (loss) before income tax	6	9,530,972	(45,704,441)
Income tax expense	7	–	(2,341,025)
Profit (loss) for the year attributable to owners of the Company	9	9,530,972	(48,045,466)
Other comprehensive income:			
(Losses) gains on fair value changes on available-for-sale financial assets		(7,050,811)	16,617,266
Transfer of fair value gain to profit or loss upon disposal of an available-for-sale financial asset		(1,018,508)	(3,420,171)
Impairment losses on available-for-sale financial assets recognised in profit or loss		12,624,729	115,000
Other comprehensive income for the year		4,555,410	13,312,095
Total comprehensive income for the year attributable to owners of the Company		14,086,382	(34,733,371)
Earnings (loss) per share	10		
Basic		HK$0.24	(HK$1.23)
Diluted		HK$0.24	(HK$1.23)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December

	Note	2012 HK$	2011 HK$
Non-current assets			
Property, plant and equipment	12	1,036,403	1,706,494
Interest in an associate	14	–	6,681,887
Available-for-sale financial assets	15	85,610,660	81,497,676
Loans and receivables	16	27,676,654	32,208,444
		114,323,717	122,094,501
Current assets			
Loans and receivables	16	22,268,845	–
Accounts receivable and prepayments	18	12,438,006	6,414,293
Financial assets at fair value through profit or loss	19	87,031,396	65,365,498
Derivative financial instruments	20	18,228,808	3,581,809
Tax recoverable		2,661,127	2,661,127
Bank balances and cash		34,096,412	75,404,609
		176,724,594	153,427,336
Current liabilities			
Accounts payable and accruals	21	7,205,583	6,824,488
Amount due to a related company	26(c)	1,058,997	–
		8,264,580	6,824,488
Net current assets		168,460,014	146,602,848
Total assets less current liabilities/Net assets		282,783,731	268,697,349
Capital and reserves			
Share capital	22	39,058,615	39,058,615
Reserves		243,725,116	229,638,734
Total equity		282,783,731	268,697,349
Net asset value per share	24	HK$7.24	HK$6.88

Approved and authorised for issue by the Board of Directors on 28th March, 2013

LEE Fong Lit David
Director

CHOW Pok Yu Augustine
Director

STATEMENT OF FINANCIAL POSITION

As at 31st December

	Note	2012 HK$	2011 HK$
Non-current assets			
Property, plant and equipment	12	1,036,403	1,706,494
Interests in subsidiaries	13	141,230,041	87,355,425
Available-for-sale financial assets	15	12,412,545	8,850,000
Loans and receivables	16	1,200,000	5,790,540
		155,878,989	103,702,459
Current assets			
Loans and receivables	16	6,057,346	–
Accounts receivable and prepayments	18	1,190,168	1,485,527
Financial assets at fair value through profit or loss	19	27,078,181	51,208,049
Derivative financial instruments	20	–	3,581,809
Tax recoverable		2,661,127	2,661,127
Bank balances and cash		29,746,356	71,282,581
		66,733,178	130,219,093
Current liabilities			
Accounts payable and accruals	21	6,445,218	6,064,123
Amount due to a related company	26(c)	1,058,997	–
		7,504,215	6,064,123
Net current assets		59,228,963	124,154,970
Total assets less current liabilities/Net assets		215,107,952	227,857,429
Capital and reserves			
Share capital	22	39,058,615	39,058,615
Reserves	23	176,049,337	188,798,814
Total equity		215,107,952	227,857,429

Approved and authorised for issue by the Board of Directors on 28th March, 2013

LEE Fong Lit David	**Chow Pok Yu Augustine**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the years ended 31st December, 2012 and 2011

	Share capital HK$	**Share premium** HK$	**Fair value reserve** HK$	**Retained profits** HK$	**Total** HK$
At 1st January, 2012	39,058,615	162,768,326	32,042,831	34,827,577	268,697,349
Profit for the year	–	–	–	9,530,972	9,530,972
Losses on fair value changes on available–for-sale financial assets	–	–	(7,050,811)	–	(7,050,811)
Transfer of fair value gain to profit or loss upon disposal of an available-for-sale financial asset	–	–	(1,018,508)	–	(1,018,508)
Impairment losses on available-for-sale financial assets recognised in profit or loss	–	–	12,624,729	–	12,624,729
Other comprehensive income for the year	–	–	4,555,410	–	4,555,410
Total comprehensive income for the year	–	–	4,555,410	9,530,972	14,086,382
At 31st December, 2012	39,058,615	162,768,326	36,598,241	44,358,549	282,783,731

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the years ended 31st December, 2012 and 2011

	Share capital HK$	Share premium HK$	Fair value reserve HK$	Share option reserve HK$	Proposed dividend HK$	Retained profits HK$	Total HK$
At 1st January, 2011	39,058,615	162,768,326	18,730,736	313,040	5,858,792	82,560,003	309,289,512
Loss for the year	–	–	–	–	–	(48,045,466)	(48,045,466)
Gains on fair value changes on available–for-sale financial assets	–	–	16,617,266	–	–	–	16,617,266
Transfer of fair value gain to profit or loss upon disposal of an available-for-sale financial asset	–	–	(3,420,171)	–	–	–	(3,420,171)
Impairment losses on available-for-sale financial assets recognised in profit or loss	–	–	115,000	–	–	–	115,000
Other comprehensive income for the year	–	–	13,312,095	–	–	–	13,312,095
Total comprehensive income for the year	–	–	13,312,095	–	–	(48,045,466)	(34,733,371)
Transfer to retained profits upon lapse of share options	–	–	–	(313,040)	–	313,040	–
Dividend paid	–	–	–	–	(5,858,792)	–	(5,858,792)
Total transactions with owners for the year	–	–	–	(313,040)	(5,858,792)	313,040	(5,858,792)
At 31st December, 2011	39,058,615	162,768,326	32,042,831	–	–	34,827,577	268,697,349

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31st December

	Note	2012 HK$	2011 HK$
Cash used in operating activities			
Cash used in operations	25	(22,043,625)	(51,383,667)
Income tax paid		–	(4,021,209)
Net cash used in operating activities		(22,043,625)	(55,404,876)
Cash flows from investing activities			
Interest received		5,288,795	6,608,592
Dividend received from available-for-sale financial assets		1,502,986	5,320,000
Advances to investee companies		(5,915,000)	(5,253,082)
Repayments from investee companies		2,708,030	2,621,764
Purchase of property, plant and equipment		(36,977)	(1,234,306)
Purchase of available-for-sale financial assets		(10,750,558)	(8,098,750)
Purchase of convertible bonds		(16,000,000)	–
Redemption of convertible bonds		2,000,000	–
Proceeds from disposal of an available-for-sale financial asset		1,938,152	3,420,171
Investment in and loan to an associate		–	(7,800,000)
Net cash used in investing activities		(19,264,572)	(4,415,611)
Cash used in financing activities			
Dividend paid		–	(5,858,792)
Net decrease in cash and cash equivalents		(41,308,197)	(65,679,279)
Cash and cash equivalents at 1st January		75,404,609	141,083,888
Cash and cash equivalents at 31st December		34,096,412	75,404,609
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		34,096,412	75,404,609

for the year ended 31st December, 2012

1. GENERAL

Harmony Asset Limited is incorporated in the Cayman Islands as an exempted company with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is Room 1902, Cheung Kong Center, 2 Queen's Road Central, Hong Kong. Its shares are dual listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Toronto Stock Exchange (the "TSX"). On 24th January, 2013, the Company announced that it has applied for voluntary delisting of its shares from the TSX. The Company's application has been approved by the TSX. It is expected that trading of the shares of the Company will cease on the TSX and the Company will be delisted from the TSX at the close of business on 22nd July, 2013.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 13.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of amendments to IFRSs – effective 1st January, 2012

Amendments to IFRS 1	Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
Amendments to IAS 12	Deferred Tax – Recovery of Underlying Assets

The adoption of these amendments has no material impact on the Group's financial statements.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

(b) New or revised IFRSs that have been issued but are not yet effective

The following new or revised IFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

IFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to IAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to IFRS 7	Offsetting Financial Assets and Financial Liabilities[2]
IFRS 9	Financial Instruments[4]
IFRS 10	Consolidated Financial Statements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
Amendments to IFRS 10, IFRS 12 and IAS 27 (2011)	Investment Entities[3]
IAS 19 (2011)	Employee Benefits[2]
IAS 27 (2011)	Separate Financial Statements[2]
IAS 28 (2011)	Investments in Associates and Joint Ventures[2]

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

The Group is in the process of making an assessment of the potential impact of these new or revised IFRSs and the directors so far concluded that the application of these new or revised IFRSs will have no material impact on the Group's financial statements except for the following IFRSs.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

(b) New or revised IFRSs that have been issued but are not yet effective(continued)

Amendments to IAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds.

The amendments provide an exception to the consolidation requirements in IFRS 10 Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2012

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

(b) New or revised IFRSs that have been issued but are not yet effective (continued)

IFRS 9 – Financial Instruments

IFRS 9 "Financial Instruments" replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Under IFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have an irrevocable election in initial recognition, on an investment-by-investment basis, to recognise the gains and losses in other comprehensive income. There is no recycling of such fair value gains or losses to profit or loss. IFRS 9 carries forward the recognition and measurement requirements for financial liabilities from IAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities. The directors are in process of assessing the impacts on the application of this new IFRS and currently not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 13 – Fair Value Measurement

IFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with IFRS 7 "Financial Instruments: Disclosures". IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. IFRS 13 can be adopted early and is applied prospectively.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Statement of compliance

The financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis, except that, as disclosed in the summary of significant accounting policies in note 4, available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value.

(c) Use of estimates and judgements

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

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

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 29.

(d) Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31st December each year.

The financial statements of subsidiaries are included into the consolidated financial statements from the date that control commences until the date that control ceases.

All intra-group transactions and balances, and any unrealised profit arising from intra-group transactions, are eliminated in full on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(b) Subsidiaries

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less any impairment losses as set out in note 4(f) below. The results of subsidiaries are accounted for by the Company to the extent of dividends received and receivable.

(c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interests in the associates are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associates. The investor's share in the respective associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses as stated in note 4(f) below. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use.

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

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, over their estimated useful lives using the straight-line method. The annual rate used ranges from 20% to 33%.

The useful life of an asset, its residual value, and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

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

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

(e) Financial instruments

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial assets

The Group's financial assets are classified into one of the three categories, comprising financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. 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. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent financial assets held for trading if:

- they have been acquired principally for the purpose of selling in the near future; or

- they are 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

- they are derivative that are not designated and effective as a hedging instruments.

Derivatives embedded in non-derivative host contracts are separated from the relevant hosts and deemed as held-for-trading when the economic characteristic and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial assets (continued)

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 accounts receivable, loans receivable and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss or loans and receivables. The Group designates certain listed and unlisted investments as available-for-sale financial assets. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in other comprehensive income and accumulated in fair value reserve within equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is reclassified from equity and recognised in profit or loss.

The fair value of listed available-for-sale investments is based on their quoted market prices at the end of reporting period, without any deduction for estimated future selling costs.

For available-for-sale equity investments which are not traded in an active market, fair value is estimated based upon an analysis of the respective investee's financial position and results, risk profile, nature of business, prospects, price of their recent transactions, other factors and assumptions not supported by observable market data as well as reference to market valuations for similar entities quoted in an active market, current fair value of comparable investments or applicable price/earning ratios for comparable listed companies adjusted to reflect the circumstances of the investee.

When the fair value of unlisted available-for-sale equity investments and derivatives that are linked to and must be settled by delivery of such unlisted equity instruments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, they are measured at cost less any identified impairment losses.

for the year ended 31st December, 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Impairment loss on financial assets

Objective evidence that the asset is impaired includes observable data that comes to the attention of the Group includes the following loss events:

– significant financial difficulty of the debtor or counterparty;

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

– granting concession to a debtor because of the debtors' financial difficulty;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– a significant decline or prolonged decline in the fair value of an investment below its cost.

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Impairment loss on financial assets (continued)

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is reclassified from equity and recognised in profit or loss.

Any impairment losses recognised in profit or loss on available-for-sale debt investments are subsequently reversed 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.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to 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 a group entity after deducting all of its liabilities.

Financial liabilities

The Group's financial liabilities include accounts payable, accruals and amount due to a related company which are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial liabilities and equity (continued)

Equity instruments

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

Consideration paid to reacquire the Company's own equity instruments are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale or cancellation of the Company's own equity instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowings for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of other assets

At the end of each reporting period, the Group assesses whether there is any indication that property, plant and equipment, investments in subsidiaries and investment in an associate have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of the fair value less costs to sell and value in use of an asset. The fair value less costs to sell is the amount that could be obtained from the sale of an asset in an arm's length transaction between knowledgeable and willing parties less the costs of disposal, while value in use is the present value of the future cash flows expected to be derived from an asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

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 cash-generating unit is reduced to its recoverable amount. Impairment losses are 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, which is restricted to the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(g) Income taxes

Income taxes for the year comprise current tax and movements in deferred tax assets and liabilities. Income taxes are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income, in which case they are recognised in other comprehensive income.

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

for the year ended 31st December, 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Income taxes (continued)

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Income taxes (continued)

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

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

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

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

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

  – the same taxable entity; or

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

for the year ended 31st December, 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Translation of foreign currencies

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions during the year are translated into functional currency at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into functional currency using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into functional currency using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into presentation currency at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items in statement of financial position are translated into presentation currency at the foreign exchange rates ruling at the end of reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity.

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

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

for the year ended 31st December, 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Provisions and contingent liabilities

A provision is recognised when the Group or the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the possibility of an outflow of economic benefits is remote.

Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(j) Revenue recognition

Interest income is recognised as it accrues using the effective interest method.

Income from provision of other services is recognised when the related services are rendered.

Dividend income is recognised when the shareholder's right to receive payment is established.

(k) Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense in profit or loss on a straight-line basis over the lease term. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plan

Salaries, annual leave and other benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group has only one defined contribution plan and the assets of which are held in separate trustee – administered funds. The Group's contributions to the defined contribution retirement scheme for all of its eligible employees are expensed as incurred. The Group's employer contributions vest fully with the employees when contributed into the retirement scheme in accordance with the rules of the retirement scheme.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date using generally accepted option pricing models by taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed, any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Employee benefits (continued)

(ii) Share-based payments (continued)

Where equity instruments are granted to persons other than employees for services rendered in connection with issue of equity instruments, the fair value of services received is charged to profit or loss with corresponding increase in share option reserve.

For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received. At the end of each reporting period, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognised in profit or loss.

(m) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Related parties (continued)

(b) (continued)

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(n) Cash and cash equivalents

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

(o) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the statement of financial position. Final dividends are recognised as a liability when they are approved by the shareholders.

5. TURNOVER, OTHER REVENUE AND OTHER GAINS AND (LOSSES)

The Group principally invests in securities listed on recognised stock exchanges and unlisted securities, including equity securities and convertible bonds issued by corporate entities. Turnover, other revenue and other gains and losses recognised during the year are as follows:

	2012 HK$	2011 HK$
Turnover:		
Interest income from:		
– bank deposits	192,233	714,283
– loans receivable and convertible bonds	7,716,793	9,139,359
Dividend income from:		
– listed investments	863,441	983,765
– unlisted investments	1,502,986	5,320,000
	10,275,453	16,157,407
Other revenue:		
Service fee income	136,592	27,575
Other gains and (losses):		
Fair value gains (losses) on financial assets at fair value through profit or loss:		
– trading securities	8,317,936	(58,531,282)
– derivative financial instruments	12,796,455	2,823,479
Net realised gain on disposals of financial assets at fair value through profit or loss:		
– trading securities	5,522,640	5,624,865
– derivative financial instruments	–	370,272
Net gains (losses) on financial assets at fair value through profit or loss	26,637,031	(49,712,666)
Impairment losses on loans and receivables	(1,708,524)	(90,353)
Recovery of impairment losses on loans and receivables previously recognised	1,225,864	2,080,000
Recovery of loans and receivables previously written off	406,201	–
Recovery of impairment loss on accounts receivable previously recognised	1,487,971	–
Net gain on loans and receivables	1,411,512	1,989,647
Impairment losses on available-for-sale financial assets:		
– equity investments	(12,624,729)	(115,000)
Realised gain on disposal of an available-for-sale financial asset	1,018,508	3,420,171
Net (loss) gain on available-for-sale financial assets	(11,606,221)	3,305,171
Net exchange gain (loss) on financial instruments not at fair value through profit or loss	108,008	(64,154)
Loss on disposal of property, plant and equipment	–	(25,915)
	16,550,330	(44,507,917)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2012

5. TURNOVER, OTHER REVENUE AND OTHER GAINS AND (LOSSES) (continued)

For management purposes, the Group's business activity is organised into one main operating segment, investment holding.

The following table provides an analysis of the Group's turnover, other revenue, other gains and losses by geographical location which is based on the domicile country or listing of the investees and counterparties as appropriate.

	2012 HK$	2011 HK$
Turnover and other revenue		
Hong Kong	6,528,718	10,001,339
Canada	813,394	53,955
Other countries	3,069,933	6,129,688
	10,412,045	16,184,982

	2012 HK$	2011 HK$
Other gains and (losses)		
Hong Kong	(12,115,544)	(15,487,900)
Canada	28,833,607	(31,698,237)
Other countries	(167,733)	2,678,220
	16,550,330	(44,507,917)

During the year, dividend income from two (2011: two) unlisted investments accounted for 15% (2011: 33%) of the Group's turnover.

6. PROFIT (LOSS) BEFORE INCOME TAX

Profit (loss) before income tax has been arrived at after charging the following:

	2012 HK$	2011 HK$
Auditor' s remuneration	770,000	700,000
Management fees *(note 26(a))*	3,915,231	4,342,743
Incentive fee *(note 26(a))*	1,058,997	–
Contributions to defined contribution plan*	86,921	124,055
Operating leases in respect of land and buildings	2,777,112	2,543,678

* There was no forfeited contribution in respect of the defined contribution plan available at 31st December, 2012 and 2011 to reduce future contributions. There was no outstanding contribution to the plan at 31st December, 2012 and 2011.

7. INCOME TAX EXPENSE

(a) No provision for Hong Kong Profits Tax has been made for the years ended 31st December, 2012 and 2011 as the Group has sustained estimated tax losses for the both years.

	2012 HK$	2011 HK$
Current tax		
Hong Kong Profits Tax:		
Over provision in prior years	–	(1,661,347)
Deferred taxation *(note 17)*		
Current year	–	4,002,372
	–	2,341,025

The directors consider the Group has no income subject to taxation in other jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2012

7. INCOME TAX EXPENSE (continued)

(b) Reconciliation between income tax expense and the Group's profit (loss) before income tax applicable tax rate is set out below:

	2012 HK$	2011 HK$
Profit (loss) before income tax	9,530,972	(45,704,441)
Notional tax on profit (loss) before income tax, calculated at Hong Kong Profits Tax rate of 16.5% (2011: 16.5%)	1,572,610	(7,541,233)
Tax effect of income not taxable for tax purpose	(6,966,515)	(3,451,563)
Tax effect of expenses not deductible for tax purpose	1,816,543	6,894,521
Tax effect of tax losses not recognised	2,732,797	1,544,880
Tax effect of other deductible temporary differences not recognised	844,565	2,553,395
Over provision in current tax in prior years	–	(1,661,347)
Deferred tax assets written down	–	4,002,372
Income tax expense	–	2,341,025

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Details of directors' emoluments are as follows:

	2012			
	Fees HK$	Salaries, allowances and benefits in kind HK$	Contributions to defined contribution plan HK$	Total HK$
Executive directors:				
Lee Fong Lit David	–	–	–	–
Chow Pok Yu Augustine *(note ii)*	70,000	–	–	70,000
Chan Shuen Chuen Joseph	–	345,800	2,210	348,010
Cheng Ming Shun#	–	666,060	30,325	696,385
Non-executive director:				
Lam Andy Siu Wing, JP*	25,000	–	–	25,000
Independent non-executive directors:				
Tong Kim Weng Kelly	70,000	–	–	70,000
Ho Man Kai Anthony	70,000	–	–	70,000
Wong Yun Kuen	70,000	–	–	70,000
	305,000	1,011,860	32,535	1,349,395

	2011			
	Fees HK$	Salaries, allowances and benefits in kind HK$	Contributions to defined contribution plan HK$	Total HK$
Executive directors:				
Lee Fong Lit David	–	–	–	–
Chow Pok Yu Augustine *(note ii)*	55,000	–	–	55,000
Chan Shuen Chuen Joseph	–	330,200	10,100	340,300
Non-executive director:				
Lam Andy Siu Wing, JP*	55,000	–	–	55,000
Independent non-executive directors:				
Tong Kim Weng Kelly	55,000	–	–	55,000
Ho Man Kai Anthony	55,000	–	–	55,000
Wong Yun Kuen	55,000	–	–	55,000
	275,000	330,200	10,100	615,300

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Details of directors' emoluments are as follows: (continued)

* Lam Andy Siu Wing, JP had been re-designated as a non-executive director effective from 1st January, 2011 and was retired as a non-executive director effective from 31st May, 2012.

\# Cheng Ming Shun was appointed as an executive director effective from 1st June, 2012.

Notes:

(i) There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(ii) In addition to the directors' remuneration disclosed above, Dr. Chow Pok Yu Augustine received emoluments from a related company, namely Harmony Asset Management Limited, which amounted to HK$252,000 in 2011 and nil in 2012, in respect of his services provided to the Company and its subsidiaries as mentioned in note 26(a).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2011: one) directors whose emoluments is disclosed in note 8(a) above. The emoluments payable to the remaining three (2011: four) individuals during the year are as follows:

	2012 HK$	2011 HK$
Basic salaries, other allowances and benefits in kind	1,225,900	1,448,000
Discretionary bonuses	–	142,800
Contributions to defined contribution plan	56,580	66,400
	1,282,480	1,657,200

Note: The emoluments of the three (2011: four) individuals are within the band from nil to HK$1,000,000.

for the year ended 31st December, 2012

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(c) Senior management's emoluments

Senior management represents the executive directors and the chief financial officer. The emoluments paid or payable to senior management during the year are as follows:

	2012 HK$	2011 HK$
Director fees	70,000	55,000
Basic salaries, other allowances and benefits in kind	1,011,860	930,700
Contributions to defined contribution plan	32,535	37,700
	1,114,395	1,023,400

The emoluments paid or payable to the four (2011: four) members of senior management were within the band from nil to HK$1,000,000.

9. PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit (loss) for the year attributable to owners of the Company includes a loss of HK$12,415,022 (2011: HK$17,880,939) which has been dealt with in the financial statements of the Company.

10. EARNINGS (LOSS) PER SHARE

(a) Basic earnings (loss) per share

The calculation of basic earnings (loss) per share is based on the Group's profit attributable to owners of the Company amounting to HK$9,530,972 (2011: loss of HK$48,045,466) and on the weighted average number of ordinary shares of 39,058,614 (2011: 39,058,614) in issue during the year.

(b) Diluted earnings (loss) per share

Diluted earnings per share for the year ended 31st December, 2012 is the same as the basic earnings per share as there is no potential dilutive share in issue during the year.

Diluted loss per share for the year ended 31st December, 2011 was the same as the basic loss per share as the effect of the assumed conversion of the outstanding share options was anti-dilutive.

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for the year ended 31st December, 2012

11. DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31st December, 2012 and 2011.

12. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold improvements	**Office equipment**	**Furniture and fixtures**	**Motor vehicle**	**Total**
	HK$	HK$	HK$	HK$	HK$
Cost					
At 1st January, 2011	917,606	465,556	423,022	1,444,000	3,250,184
Additions	1,090,699	27,821	115,786	–	1,234,306
Disposal	(917,606)	–	–	–	(917,606)
At 31st December, 2011	1,090,699	493,377	538,808	1,444,000	3,566,884
Additions	–	31,060	5,917	–	36,977
At 31st December, 2012	1,090,699	524,437	544,725	1,444,000	3,603,861
Accumulated depreciation					
At 1st January, 2011	892,029	443,485	417,339	336,933	2,089,786
Provided for the year	353,264	10,481	9,750	288,800	662,295
Written back on disposal	(891,691)	–	–	–	(891,691)
At 31st December, 2011	353,602	453,966	427,089	625,733	1,860,390
Provided for the year	370,005	10,521	37,742	288,800	707,068
At 31st December, 2012	723,607	464,487	464,831	914,533	2,567,458
Carrying amount					
At 31st December, 2012	367,092	59,950	79,894	529,467	1,036,403
At 31st December, 2011	737,097	39,411	111,719	818,267	1,706,494

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company				
	Leasehold improvements	**Office equipment**	**Furniture and fixtures**	**Motor vehicle**	**Total**
	HK$	HK$	HK$	HK$	HK$
Cost					
At 1st January, 2011	917,606	432,151	423,022	1,444,000	3,216,779
Additions	1,090,699	27,821	115,786	–	1,234,306
Disposal	(917,606)	–	–	–	(917,606)
At 31st December, 2011	1,090,699	459,972	538,808	1,444,000	3,533,479
Additions	–	31,060	5,917	–	36,977
At 31st December, 2012	1,090,699	491,032	544,725	1,444,000	3,570,456
Accumulated depreciation					
At 1st January, 2011	892,029	410,080	417,339	336,933	2,056,381
Provided for the year	353,264	10,481	9,750	288,800	662,295
Written back on disposal	(891,691)	–	–	–	(891,691)
At 31st December, 2011	353,602	420,561	427,089	625,733	1,826,985
Provided for the year	370,005	10,521	37,742	288,800	707,068
At 31st December, 2012	723,607	431,082	464,831	914,533	2,534,053
Carrying amount					
At 31st December, 2012	367,092	59,950	79,894	529,467	1,036,403
At 31st December, 2011	737,097	39,411	111,719	818,267	1,706,494

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2012

13. INTERESTS IN SUBSIDIARIES

	2012 HK$	2011 HK$
Unlisted shares, at cost	16,718,596	16,718,596
Impairment losses on investments in subsidiaries	(16,718,580)	(16,718,580)
	16	16
Amounts due from subsidiaries *(note a)*	173,877,150	129,930,364
Allowance for impairment losses on amounts due from subsidiaries	(32,647,125)	(42,574,955)
	141,230,025	87,355,409
	141,230,041	87,355,425

The table below reconciled the allowance for impairment losses on amounts due from subsidiaries for the year.

	2012 HK$	2011 HK$
At 1st January	42,574,955	52,110,921
Recovery of impairment losses previously recognised	(9,927,830)	(9,535,966)
At 31st December	32,647,125	42,574,955

13. INTERESTS IN SUBSIDIARIES (continued)

Notes:

(a) The amounts due from subsidiaries, which have no fixed repayment terms, are unsecured, interest free and not expected to be realised within one year from the end of reporting period.

(b) The following is a list of subsidiaries at 31st December, 2012:

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Plowright Investments Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%*
IT Star Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%*
Powercell Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Quickrise Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Wingo Venture Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Datacom Venture Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Gwynneth Gold Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Goal Vision Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Techlink Venture Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%

* Shares held directly by the Company

None of the subsidiaries issued any debt securities at the end of reporting period.

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for the year ended 31st December, 2012

14. INTEREST IN AN ASSOCIATE

	Group	
	2012 HK$	2011 HK$
Unlisted shares, at cost *(note a)*	–	3,923,113
Share of loss	–	(1,571,724)
	–	2,351,389
Loan to an associate *(note b)*	–	4,330,498
	–	6,681,887

Notes:

(a) In 2011, the Group had acquired 26% interest in the associate with a cash consideration of HK$2,600. The Group had also recognised the deemed capital contribution of HK$3,920,513 resulting from provision of the interest free loan to the associate as mentioned in note 14(b) as additional investment in the associate. Accordingly, the investment cost in the associate on initial acquisition amounted to HK$3,923,113.

(b) The loan was unsecured, interest free with no fixed repayment terms. Imputed interest income of HK$453,611 on loan to the associate had been recognised in 2011. The effective interest rate per annum was 15%.

(c) During the year, the Group ceased to have significant influence over the investee after one of the Company's directors has resigned as a director of the associate. The Group is no longer entitled to appoint or nominate any person as director of the associate. As such, the Group has reclassified the interest in an associate as available-for-sale financial assets and loans and receivables. No gain or loss is recognised upon the reclassification of the interest in the associate as the fair value approximates its carrying amount. The Group has not recognised the share of results of the associate during the year as the amount involved is insignificant.

14. INTEREST IN AN ASSOCIATE (continued)

Details of the associate as at 31st December, 2011 were as follows:

Name	Form of business structure	Place of incorporation	Place of operation and principal activity	Percentage of effective equity interest held
Gold China Development Limited	Corporation	Hong Kong	Investment holding in Hong Kong	26
滕州金京塑膠電子有限公司*	Corporation	People's Republic of China	Manufacturing of metal, rubber and plastic products in the PRC	26*

* It is a wholly owned subsidiary of Gold China Development Limited.

The summarised financial information in respect of the Group's associate for the year ended 31st December, 2011 is set out below:

	2011 HK$
Total assets	63,166,150
Total liabilities	54,122,346
Net assets	9,043,804
Group's share of net assets of the associate	2,351,389
Total revenue	17,582,481
Loss for the year	6,045,092
Group's share of loss of the associate for the year	1,571,724

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for the year ended 31st December, 2012

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Unlisted equity securities *(note a)*	81,902,520	74,804,552	9,262,545	5,700,000
Equity securities listed outside Hong Kong	558,140	3,543,124	–	–
Club debentures	3,150,000	3,150,000	3,150,000	3,150,000
Total available-for-sale financial assets, at fair value	85,610,660	81,497,676	12,412,545	8,850,000
Market value of equity securities listed outside Hong Kong	558,140	3,543,124	–	–

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS(continued)

Note:

(a) As at 31st December, 2012, details of major equity securities included in available-for-sale financial assets are as follows:

Name of investee company	Place of incorporation	Principal activities	As at 31st December	Proportion of investee's capital owned	Investment cost thereto HK$'000	Fair value of investment HK$'000	Dividend income received during the year HK$'000	Dividend cover	Net assets (liabilities) attributable to the investment HK$'000	Accumulated fair value gains (losses) on investment recognised in the financial statements HK$'000	Accumulated impairment losses on investment recognised in the financial statements HK$'000
Avtrace (HK) Limited	Hong Kong	Trading of electronic product	2012	30%	672	5,494	–	–	5,494	4,822	–
			2011	30%	672	2,965	–	–	2,965	2,293	–
Bartan Limited	Hong Kong	Real-estate development	2012	16.5%	2,950	18,000	–	–	18,000	15,050	–
			2011	16.5%	2,950	11,740	–	–	11,740	8,790	–
China High Growth Investment Limited #	Cayman Islands	Long short equity fund	2012	13.33%	7,797	8,163	–	–	8,163	366	–
			2011	–	–	–	–	–	–	–	–
Legend Picture LLC	Delaware	Production of motion pictures	2012	0.07%	2,982	6,287	–	–	6,287	3,305	–
			2011	0.12%	3,902	3,902	–	–	3,902	–	–
Mainco Limited	British Virgin Islands	Manufacturing and trading of electrical wires	2012	30%	19,021	28,561	1,500	2.38	22,247	9,540	–
			2011	30%	19,021	32,961	5,100	0.77	20,282	13,940	–
One.Tel Holding Limited	British Virgin Islands	Tele-communications	2012	20%	3,240	5,760	–	–	5,760	2,520	–
			2011	20%	3,240	6,586	–	–	6,586	3,346	–

Unless otherwise specified, all investments are indirectly held by the Company through its subsidiaries.

Directly held by the Company

The equity investments in the above companies with interests being held at 20% or more are not classified as investments in associates as the Group does not participate in their operations and has no significant influence over their management.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2012

16. LOANS AND RECEIVABLES

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Loans to investee companies *(note a)*	54,904,695	45,683,624	1,200,000	–
Less: Allowance for impairment losses *(note b)*	(19,748,380)	(19,265,720)	–	–
	35,156,315	26,417,904	1,200,000	–
Convertible bonds *(note c)*	14,789,184	5,790,540	6,057,346	5,790,540
Total after impairment losses *(note d)*	49,945,499	32,208,444	7,257,346	5,790,540
Less: Current portion classified as current assets	(22,268,845)	–	6,057,346	–
Non-current portion classified as non-current assets	27,676,654	32,208,444	1,200,000	5,790,540

Notes:

(a) Loans to investee companies amounting to HK$23,899,213 after impairment losses of HK$18,093,479 (2011: HK$21,241,374 after impairment losses of HK$17,610,819), which have no fixed repayment terms, are unsecured, interest free and not expected to be realised within one year from the end of reporting period. Imputed interest income of HK$1,728,197 (2011: HK$2,544,155) on certain interest free loans to investee companies with carrying amount of HK$14,329,498 (2011: HK$23,254,771) as at 31st December, 2012 had been recognised during the year. The effective interest rate per annum ranged from 9% to 15% (2011: 9% to 15%). The remaining loan balances have the following terms of repayment.

A loan to an investee company amounting to HK$7,057,102 after impairment losses of HK$1,654,901 (2011: HK$5,176,530 after impairment losses of HK$1,654,901) is unsecured, interest free and repayable on 31st December, 2013.

A loan to an investee company amounting to HK$3,000,000 (2011: nil) is unsecured, interest bearing at 6% per annum and is repayable on 31st December, 2012.

A loan to an investee company by the Company amounting to HK$1,200,000 (2011: nil) is unsecured, interest bearing at 10% per annum and is repayable on 4th January, 2014.

16. LOANS AND RECEIVABLES (continued)

Notes: (continued)

(b) Movement of allowance for impairment losses:

	Group	
	2012 HK$	2011 HK$
Balance at 1st January	19,265,720	34,701,189
Impairment losses recognised	1,708,524	90,353
Recovery of impairment losses previously recognised	(1,225,864)	(2,080,000)
Written off of loans impaired in prior years	–	(13,445,822)
Balance at 31st December	19,748,380	19,265,720

The Group recognised impairment loss on individual assessment of loans and receivables based on the accounting policy stated in note 4(e).

(c) During the year, the Group has subscribed for two convertible bonds (the "CB1" and the "CB2") from two unlisted companies with principal amounts of HK$8,000,000 and HK$3,000,000 respectively. The CB1 and the CB2 carry interest at 6% per annum. The maturity dates of the CB1 and the CB2 are 17th April, 2013 and 15th November, 2014 respectively. The Group has the option to convert the CB1 and the CB2 to not more than 30% of the equity interest of the issuers.

The investments in the CB1 and the CB2 have been split between a debt component and embedded derivatives (i.e. conversion options). The Group accounted for the debt components as "loan and receivable" and the conversion options as "derivative financial instruments" (note 20). The initial carrying amounts of the conversion options amounted to HK$463,964 for the CB1 and HK$474,020 for the CB2, which are the residual amounts after separating the debt components of HK$7,536,036 for the CB1 and HK$2,525,980 for the CB2 at initial recognition. The debt components are initially recognised at the sum of contractual stream of future cash flows discounted at the effective interest rate of similar bonds without the conversion options, and subsequently measured at amortised cost. During the year, the CB1 with principal amount of HK$2,000,000 was early redeemed (2011: nil). The carrying amounts of the debt components of the CB1 and the CB2 are HK$6,154,397 (2011: nil) and HK$2,577,441 (2011: nil) respectively as at 31st December, 2012.

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16. LOANS AND RECEIVABLES (continued)

Notes: (continued)

(c) (continued)

During the year ended 31st December 2010, the Group subscribed for HK$6,000,000 out of an aggregate principal amount of HK$70,000,000 convertible bonds (the "Glory Wing Convertible Bonds") issued by an investee company of the Group, Glory Wing International Limited ("Glory Wing"). The Glory Wing Convertible Bonds carry interest at 3% coupon rate per annum with date of maturity on 9th April, 2013 and are secured by the entire issued share capital of Glory Wing. The Glory Wing Convertible Bonds may be converted into shares of Glory Wing equal to 35% of its enlarged share capital after the conversion, of which approximately 3% is attributable to the Group. The Glory Wing Convertible Bonds may be converted into shares of Glory Wing at any time after the issue date but before the maturity date. The issuer shall have the right to redeem the Glory Wing Convertible Bonds at any time after the issue date but before the maturity date and on the maturity date at the redemption amount of 108% and 103% of outstanding principal with accrued interest respectively.

The investment in the Glory Wing Convertible Bonds has been split between a debt component and embedded derivatives (i.e. conversion option and redemption option). The Group accounted for the debt component as "loan and receivable" and the options as "derivative financial instruments" (note 20). The debt component is initially recognised at the sum of contractual stream of future cash flows discounted at the effective interest rate of similar bonds without the options, and subsequently measured at amortised cost. The carrying amount of the debt component of the Glory Wing Convertible Bonds are HK$6,057,346 (2011: HK$5,790,540) as at 31st December, 2012.

(d) The loans and receivables after impairment losses can be analysed as follows:

	Group		**Company**	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Balance past due but not impaired *(note i)*	3,000,000	–	–	–
Balances neither past due nor impaired *(note ii)*	36,615,001	25,937,779	7,257,346	5,790,540
Balances not past due but impaired *(note iii)*	10,330,498	6,270,665	–	–
	49,945,499	32,208,444	7,257,346	5,790,540

16. LOANS AND RECEIVABLES (Continued)

Notes: (continued)

Notes:

(i) At the end of reporting period, loan to an investee company amounting to HK$3,000,000 (2011: nil) is due on 31st December, 2012. The directors consider the investee should be able to meet its obligation to repay the debt taking into account its financial position and business prospect.

(ii) At the end of reporting period, there are no events of default in repayment of these loans which relate to a number of loans made to investees. The directors consider the investees should be able to meet their obligations to repay the debts taking into account their financial position and business prospect.

(iii) At the end of reporting period, the Group takes into consideration the likelihood of collection and the financial position of the investees. Specific allowance is made for loans that are unlikely to be collectible and is recognised based on the estimation of the present value of the future cash flows expected to be received by the Group discounted at the original effective interest rate.

17. DEFERRED TAX ASSETS

The movements in the deferred tax assets during the year are as follows:

	Group and Company
	Net unrealised losses on financial assets at fair value through profit or loss HK$
At 1st January, 2011	(4,002,372)
Charge to profit or loss	4,002,372
At 31st December, 2011 and 2012	–

At the end of reporting period, the directors reviewed the likelihood of utilisation or reversal of the temporary differences and considered it may be no longer probable that the temporary differences could be utilised or reversed. As such, no deferred tax assets were recognised at 31st December, 2011 and 2012.

17. DEFERRED TAX ASSETS (Continued)

Deferred tax assets have not been recognised in respect of the following amounts of deductible temporary differences:

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Deductible temporary differences in respect of net unrealised losses on financial assets at fair value through profit or loss	40,734,935	39,789,794	40,734,935	39,789,794
Unutilised tax losses	29,570,426	14,174,189	–	–
	70,305,361	53,963,983	40,734,935	39,789,794

No deferred tax assets in respect of the estimated tax losses and deductible temporary differences had been recognised due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

18. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Accounts receivable	4,606,250	1,906,250	–	–
Interests receivable	703,908	163,706	143,863	145,200
Other receivables	5,139,824	3,404,295	139,824	404,295
Receivables after allowance for impairment losses *(note a)*	10,449,982	5,474,251	283,687	549,495
Deposits	743,194	741,994	743,166	741,941
Prepayments	1,244,830	198,048	163,315	194,091
	12,438,006	6,414,293	1,190,168	1,485,527

18. ACCOUNTS RECEIVABLE AND PREPAYMENTS (Continued)

Notes:

(a) The aging analysis of the receivables (after allowance for impairment losses) based on due date is as follows:

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Balances neither past due nor impaired *(note b)*	6,543,732	5,474,251	283,687	549,495
Balances past due but not impaired *(note c)*	3,906,250	–	–	–
Receivables after allowance for impairment losses	10,449,982	5,474,251	283,687	549,495

(b) The balances that were neither past due nor impaired relate to a number of debtors for whom there was no recent history of default.

(c) The balances past due but not impaired represent receivables from two debtors. The directors consider these two debtors should be able to meet their obligations to repay the debts taking into account their financial positions and business prospect. Subsequent to the end of reporting period, HK$1,906,250 has been settled.

(d) The table below reconciled the allowance for impairment losses on receivables for the year.

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
At 1st January	4,782,910	4,782,910	3,294,939	3,294,939
Recovery of impairment loss previously recognised	(1,487,971)	–	–	–
At 31st December	3,294,939	4,782,910	3,294,939	3,294,939

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19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Trading securities *(note a)*	82,031,396	65,365,498	27,078,181	51,208,049
Convertible bonds designated as at fair value through profit or loss *(note b)*	5,000,000	–	–	–
	87,031,396	65,365,498	27,078,181	51,208,049

Notes:

(a) Trading securities

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Current assets:				
Equity securities held for trading at market value				
– Listed in Hong Kong	24,834,946	43,586,489	24,834,946	43,586,489
– Listed outside Hong Kong	57,196,450	21,779,009	2,243,235	7,621,560
	82,031,396	65,365,498	27,078,181	51,208,049

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Notes: (continued)

(a) Trading securities (continued)

As at 31st December, 2012, details of major listed equity securities are as follows:

Name of investee company	Place of incorporation	As at 31st December	Proportion of investee's capital owned	Cost HK$' 000	Market value HK$' 000	Dividend income received during the year HK$' 000	Dividend cover	Net assets (liabilities) attributable to the investment HK$' 000	Accumulated fair value gains (losses) on investment recognised in the financial statements HK$' 000
Listed in Hong Kong:									
Kaisun Energy	Cayman Islands	2012	3.32%	37,658	15,651	–	–	27,407	(22,007)
Group Limited		2011	2.49%	40,951	18,302	–	–	67,411	(22,649)
("Kaisun") *(note i)*									
Listed outside Hong Kong:									
Celsion Corporation	Delaware	2012	0.33%	3,902	7,463	–	–	333	3,561
("Celsion")# *(note ii)*		2011	0.44%	3,902	1,552	–	–	622	(2,350)
Medifocus Inc	Ontario	2012	15.70%	19,284	35,952	–	–	11,392	16,668
("MFS")* *(note iii)*		2011	6.18%	4,762	1,212	–	–	(835)	(3,550)
Prosperity Minerals	Jersey								
Holding Limited		2012	0.61%	10,562	7,036	622	0.49	25,565	(3,526)
("PMHL")# *(note iv)*		2011	0.22%	4,869	3,286	429	1.54	9,332	(1,583)

Unless otherwise specified, all of the above investments are directly held by the Company.

Held by a subsidiary

* 94% (2011: 51%) and 6% (2011: 49%) of the Group's equity interest in the investment are held by a subsidiary and the Company respectively.

Notes:

(i) Kaisun is engaged in the mining, sales and processing of coking coal in the People's Republic of China.

(ii) Celsion is an oncology drug development company.

(iii) MFS is engaged in the business of development and commercialisation of minimally invasive, focused heat tumor targeting cancer treatment devices and systems.

(iv) PMHL supplies cement and iron ore to China.

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19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Notes: (continued)

(b) Convertible bonds designated as at fair value through profit or loss

On 19th December, 2012, the Group has subscribed for convertible bonds (the "CB3") from an unlisted company with principal amount of HK$5,000,000. The CB3 carry interest at 8% per annum. The maturity date of the CB3 is 19th December, 2014. The Group has the option to convert the CB3 to 15% of the equity interest of the issuer. Management designated the CB3 as financial asset at fair value through profit or loss at initial recognition. The directors consider the transaction price of the CB3 of HK$5,000,000 as at 19 December 2012 approximates the fair value as at 31st December, 2012.

20. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		**Company**	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Warrants *(note a)*	18,228,808	–	–	–
Embedded derivatives in each of the three convertible bonds *(note b)*	–	3,581,809	–	3,581,809
	18,228,808	3,581,809	–	3,581,809

Notes:

(a) Warrants

As at 31st December 2012, the Group holds a number of warrants (the "Warrant 1" and the "Warrant 2") issued by an overseas listed company, MFS. The fair values of the warrants are based on valuation as at 31st December, 2012. Net gain on the warrants of HK$17,316,248 (2011: nil) has been recognised in profit or loss.

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes: (continued)

(a) Warrants (continued)

Binomial model was used for valuation of the Warrant 1 and the Warrant 2. The inputs into the model of the Warrant 1 and the Warrant 2 as at 31st December, 2012 were as follows:

	31st December, 2012	
	Warrant 1	**Warrant 2**
Number of warrants	8,866,666	3,533,334
Grant date	21st June, 2012	21st September, 2012
Maturity date	21st June, 2014	21st September, 2014
Share price per share	CAD 0.29	CAD 0.29
Exercise price per share	CAD 0.20	CAD 0.20
Risk free rate	1.118%	1.129%
Expected life (years)	1.47	1.72
Expected volatility	122.87%	139.35%
Expected dividend yield	Nil	Nil

(b) Embedded derivatives in the convertible bonds

The options represent the fair value of the conversion option and redemption option embedded in the Glory Wing Convertible Bonds, and the conversion options embedded in the CB1 and the CB2 as mentioned in note 16(c) as at 31st December, 2012. As at 31st December, 2012, the fair values of the options embedded in the three convertible bonds are nil based on valuations as at 31st December, 2012. As at 31st December, 2011, the fair value of the options of HK$3,581,809 represents the options of the Glory Wing Convertible Bonds.

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20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes: (continued)

(b) Embedded derivatives in the convertible bonds (continued)

Binomial model was used for valuation of the options embedded in the three convertible bonds. The inputs into the models of the convertible bonds as at 31st December, 2012 and 2011 were as follows:

	Glory Wing Convertible Bonds			
	31st December, 2012		**31st December, 2011**	
	Redemption option	**Conversion option**	**Redemption option**	**Conversion option**
Redemption price	HK$75,600,000 (HK$6,480,000 attributable to the Group)	N/A	HK$75,600,000 (HK$6,480,000 attributable to the Group)	N/A
Stock price per share	N/A	HK$4,400	N/A	HK$22,800
Conversion price per share	N/A	HK$13,006	N/A	HK$13,006
Volatility	57.2%	57.2%	64.803%	64.803%
Dividend yield	–	–	–	–
Option life (years)	0.27	0.27	1.27	1.27
Risk free rate	0.05%	0.05%	0.276%	0.276%

	31st December, 2012	
	CB1 Conversion option	**CB2 Conversion option**
Stock price per share	HK$891,045	HK$12
Conversion price per share	HK$1,500,000	HK$700
Volatility	0%	47.86%
Dividend yield	–	–
Option life (years)	0.29	1.87
Risk free rate	0.05%	0.112%

Volatility of the stock price was determined based on the historical volatilities of the share prices of companies that are considered comparable to the issuers of the convertible bonds.

Net loss on the options embedded in the convertible bonds of HK$4,519,793 (2011: gain of HK$2,823,479) had been recognised in profit or loss during the year.

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21. ACCOUNTS PAYABLE AND ACCRUALS

	Group		Company	
	2012	2011	2012	2011
	HK$	HK$	HK$	HK$
Accruals and other payables	7,046,153	6,664,918	6,285,788	5,904,553
Unclaimed dividend payable	159,430	159,570	159,430	159,570
	7,205,583	6,824,488	6,445,218	6,064,123

The aging analysis of accounts payable is as follows:

	Group		Company	
	2012	2011	2012	2011
	HK$	HK$	HK$	HK$
Current	7,131,053	6,749,958	6,370,688	5,989,593
Over 1 year	74,530	74,530	74,530	74,530
	7,205,583	6,824,488	6,445,218	6,064,123

22. SHARE CAPITAL

	Number of shares	Amount
		HK$
Authorised:		
Ordinary shares of HK$1 each at 1st January, 2011, 31st December, 2011, and 31st December, 2012	100,000,000	100,000,000
Issued and fully paid:		
Ordinary shares of HK$1 each at 1st January, 2011, 31st December, 2011 and 31st December, 2012	39,058,614	39,058,615

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22. SHARE CAPITAL (continued)

Notes:

(a) **Share option scheme**

The Company has adopted a share option scheme (the "Share Option Scheme") at its annual general meeting held on 28th June, 2005. The purposes of the Share Option Scheme are to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

All directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Company and its subsidiaries and consultants, advisors, agents, customers, service providers, contractors, business partners of any member of the Group or any member of it has a shareholding interest, in the sole discretion of the Board, has contributed to the Group or any member of it are eligible to participate in the Share Option Scheme.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 3,900,261 shares of the Company, being approximately 10% of the issued shares of the Company at the date of refreshment of mandate limit of the Share Option Scheme at the annual general meeting held on 27th May, 2009.

The total number of shares issued and to be issued upon exercise of options granted to each eligible participant (including both exercised and outstanding options) under the Share Option Scheme and any other share option schemes of the Company in any twelve-month period must not exceed 1% of the issued shares of the Company. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in any twelve-month period up to the date of grant should not exceed 0.1% of the issued shares of the Company or an aggregate value of HK$5,000,000.

An option may be exercised at any time during a period as the Board may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof.

Unless otherwise determined by the Board at its sole discretion, the Share Option Scheme does not require a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised.

Upon acceptance of the options, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

22. SHARE CAPITAL (continued)

Notes: (continued)

(a) Share option scheme (continued)

The subscription price for the shares of the Company (the subject of an option) shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be determined by the Board at the time the option is offered to the relevant participant.

The Share Option Scheme will remain in force for a period of ten years from 28th June, 2005.

Details of the share options granted, lapsed and exercised under the Share Option Scheme during the year ended 31st December, 2011 is as follows:

2011			Number of options			
	Date of grant	Exercise period	Outstanding as at 1st January, 2011	Lapsed during the year	Outstanding as at 31st December, 2011	Exercise price HK$
Other employees in aggregate	18/8/2008	18/8/2008-17/8/2011	522,047	(522,047)	–	5.10

No share option is outstanding, granted, lapsed and exercised under the Share Option Scheme during the year ended 31st December, 2012.

(b) Capital management

The Company's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. It is the Company's policy to finance its operations merely by internal funding and raising capital from shareholders. Therefore, the Group has no or insignificant borrowings. No changes were made in the objectives or policies during the year.

23. RESERVES

	Company					
	Share premium HK$	Fair value reserve HK$	Share option reserve HK$	Proposed dividend HK$	Retained profits HK$	Total HK$
At 1st January, 2012	162,768,326	2,618,640	–	–	23,411,848	188,798,814
Loss for the year	–	–	–	–	(12,415,022)	(12,415,022)
Losses on fair value changes on available-for-sale financial assets	–	(4,234,455)	–	–	–	(4,234,455)
Impairment losses on available-for-sale financial assets recognised in profit or loss	–	3,900,000	–	–	–	3,900,000
At 31st December, 2012	162,768,326	2,284,185	–	–	10,996,826	176,049,337
At 1st January, 2011	162,768,326	1,718,640	313,040	5,858,792	40,979,747	211,638,545
Loss for the year	–	–	–	–	(17,880,939)	(17,880,939)
Gains on fair value changes on available-for-sale financial assets	–	900,000	–	–	–	900,000
Transfer to retained profits upon lapse of share options	–	–	(313,040)	–	313,040	–
Dividend paid	–	–	–	(5,858,792)	–	(5,858,792)
At 31st December, 2011	162,768,326	2,618,640	–	–	23,411,848	188,798,814

The nature and purpose of the reserves are as follows:

Share premium represents the amount by which the issue price of shares exceeds the par value of those shares and is distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Fair value reserve represents the cumulative net change in fair value of available-for-sale financial assets held at the end of reporting period and is dealt with in accordance with the accounting policies in note 4(e).

Share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company and other parties recognised in accordance with the accounting policy adopted for share-based payments in note 4(l)(ii).

24. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the Group's net assets of HK$282,783,731 (2011: HK$268,697,349) divided by the Company's 39,058,614 (2011: 39,058,614) ordinary shares in issue as at 31st December, 2012.

25. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit (loss) before income tax to cash used in operations:

	2012 HK$	2011 HK$
Cash flows from operating activities		
Profit (loss) before income tax	9,530,972	(45,704,441)
Interest income	(7,909,026)	(9,853,642)
Dividend income from available-for-sale financial assets	(1,502,986)	(5,320,000)
Depreciation of property, plant and equipment	707,068	662,295
Fair value (gains) losses on trading securities	(8,317,936)	58,531,282
Fair value gains on derivative financial instruments	(12,796,455)	(2,823,479)
Impairment losses on available-for-sale financial assets – equity investments	12,624,729	115,000
Gain on disposal of an available-for-sale financial asset	(1,018,508)	(3,420,171)
Impairment losses on loans and receivables	1,708,524	90,353
Recovery of impairment loss on loans and receivables previously recognised	(1,225,864)	(2,080,000)
Recovery of impairment loss on accounts receivables previously recognised	(1,487,971)	–
Share of loss of an associate	–	1,571,724
Loss on disposal of property, plant and equipment	–	25,915
Loss before working capital changes	(9,687,453)	(8,205,164)
Increase in trading securities	(8,347,962)	(57,940,478)
Increase in derivative financial instruments	(912,560)	–
(Increase) decrease in accounts receivable and prepayments	(4,535,742)	18,675,256
Increase in accounts payable and accruals	381,095	14,888
Increase (decrease) in amount due to related company	1,058,997	(3,928,169)
Cash used in operations	(22,043,625)	(51,383,667)

for the year ended 31st December, 2012

25. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Major non-cash transactions

Imputed interest income of HK$1,728,197 (2011: HK$2,544,155) and nil (2011: HK$453,611) on certain loans to investee companies and loan to an associate respectively were recognised during the year.

During the year, interest in an associate with carrying amount of HK$6,681,887 was reclassified to available-for-sale financial assets and loans and receivables to the extent of HK$2,351,389 and HK$4,330,498 respectively.

26. RELATED PARTY TRANSACTIONS

(a) On 8th April, 2010, the Company entered into an investment management agreement with Harmony Asset Management Limited ("HAML"), a company which is wholly-owned by a director of the Company, Dr. Chow Pok Yu Augustine whereby HAML has agreed to provide investment management services to the Group for three years until 31st May, 2013.

In accordance with the investment management agreement, HAML is entitled to a monthly management fee calculated at 1.5% per annum on the net asset value of the Group of the preceding month and an incentive fee calculated at 10% of the audited net profit of a financial year (before accrual of the incentive fee) subject to an aggregate cap of HK$18,391,986 for the year ended 31st December, 2012 and HK$16,919,971 for the year ended 31st December, 2011.

Dr. Chow Pok Yu Augustine, being a beneficial shareholder of HAML, is interested in the investment management agreement during the years ended 31st December, 2012 and 2011. The management fees and incentive fee paid and payable to HAML are as follows:

	2012 HK$	2011 HK$
Management fees	3,915,231	4,342,743
Incentive fee	1,058,997	–
	4,974,228	4,342,743

26. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

In the opinion of the Company's independent non-executive directors, the transactions have been entered into on normal commercial terms and in the ordinary and usual course of business of the Company. The independent non-executive directors also consider that the transactions are conducted in accordance with the terms of the investment management agreement that are fair and reasonable, and in the interests of the Company's shareholders as a whole.

The above transactions are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter14A of the Listing Rules.

(b) Remuneration of key management personnel of the Group representing amounts paid to the Company's directors is disclosed in note 8(a).

(c) The amount due to a related company as at 31st December, 2012 represented incentive fee payable to HAML which was unsecured, interest free and repayable on demand.

27. OPERATING LEASES

The Group leases an office under operating leases. The leases typically run from an initial period of three years, with an option to renew the lease after that date at which time all terms are renegotiated.

At 31st December, 2012, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group and Company	
	2012 HK$	2011 HK$
Within one year	2,777,112	2,777,112
In the second to fifth years inclusive	–	2,777,112
	2,777,112	5,554,224

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2012

28. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's and the Company's financial instruments as at 31st December, 2012 and 2011 are categorised as follows:

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Available-for-sale financial assets	85,610,660	81,497,676	12,412,545	8,850,000
Loans and receivables				
Amounts due from subsidiaries	–	–	141,230,025	87,355,409
Loans and receivables	49,945,499	32,208,444	7,257,346	5,790,540
Loan to an associate	–	4,330,498	–	–
Accounts receivable	10,449,982	5,474,251	283,687	549,495
Bank balances and cash	34,096,412	75,404,609	29,746,356	71,282,581
	94,491,893	117,417,802	178,517,414	164,978,025
Financial assets at fair value through profit or loss				
Trading securities	82,031,396	65,365,498	27,078,181	51,208,049
Convertible bonds designated as at fair value through profit or loss	5,000,000	–	–	–
Derivative financial instruments	18,228,808	3,581,809	–	3,581,809
	105,260,204	68,947,307	27,078,181	54,789,858
Total financial assets	285,362,757	267,862,785	218,008,140	228,617,883
Financial liabilities at amortised cost				
Accounts payable and accruals	7,205,583	6,824,488	6,445,218	6,064,123
Amount due to a related company	1,058,997	–	1,058,997	–
Total financial liabilities	8,264,580	6,824,488	7,504,215	6,064,123

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The board of directors review and agree policies for managing each of these risks and they are summarised below.

(i) Market risk

– *Foreign exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the exchange rate of Hong Kong ("HK") dollar against Canadian dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

As substantial amount of the Group and the Company's financial assets and financial liabilities are denominated in HK dollar, the directors consider that the Group's foreign exchange risk is merely limited to the carrying amount of those bank balances and cash, accounts and other receivables and trading securities denominated in Canadian dollar. Their carrying amounts at the end of the reporting period are as follows:

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Accounts and other receivables	2,417,865	2,261,899	–	355,649
Trading securities	38,643,011	15,446,677	2,243,235	7,621,560
Bank balances and cash	7,137,914	3,253,047	7,137,914	3,253,047
Derivative financial instruments	18,228,808	–	–	–
	66,427,598	20,961,623	9,381,149	11,230,256

The Group does not use any derivative contracts to hedge foreign exchange exposure. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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for the year ended 31st December, 2012

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

– *Foreign exchange risk (continued)*

Sensitivity analysis

The following sensitivity analysis on foreign exchange risk only represents the aforementioned financial assets that are denominated in Canadian dollar. The following table indicates the approximate effect on the profit after tax in the next accounting period at one year after the end of reporting period in response to reasonably possible changes in an exchange rate to which the Group and the Company has significant exposure at the end of reporting period.

	Group		Company	
	2012 Effect on profit after tax HK$	2011 Effect on profit after tax HK$	2012 Effect on profit after tax HK$	2011 Effect on profit after tax HK$
CAD to HK$:				
Appreciates by 6% (2011: 6%)	3,985,656	1,310,035	562,869	726,153
Depreciates by 6% (2011: 6%)	(3,985,656)	(1,310,035)	(562,869)	(726,153)

– Price risk

The Group is exposed to price risk of equity securities which are classified on the Group and the Company's statements of financial positions either as available-for-sale financial assets or financial assets at fair value through profit or loss. Such investments are susceptible to market price risk arising from uncertainties about their future prices. Such risk is managed through diversification of investment portfolio.

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

– *Price risk (continued)*

The sensitivity analysis on equity price risk represents the Group and the Company's financial assets classified as at fair value through profit or loss which fair value or future cash flows will fluctuate because of changes in their corresponding or underlying asset's equity price. The below analysis in respect of those financial assets at fair value through profit or loss at the end of reporting period is estimated based on the historical correlation (one year is used by the Company) between Hang Seng Index, Growth Enterprise Market ("GEM") Index and Toronto Stock Exchange Venture ("TSX Venture") Composite Index and the respective stock prices assuming all other variables remain constant.

	Group		**Company**	
	2012 Effect on profit after tax HK$	2011 Effect on profit after tax HK$	2012 Effect on profit after tax HK$	2011 Effect on profit after tax HK$
Hang Seng Index				
Increase by 20% (2011: 20%)	26,526	3,202,000	26,526	3,202,000
Decrease by 20% (2011: 20%)	(26,526)	(3,202,000)	(26,526)	(3,202,000)
GEM Index				
Increase by 25% (2011: 25%)	2,860,959	4,320,000	2,860,959	4,320,000
Decrease by 25% (2011: 25%)	(2,860,959)	(4,320,000)	(2,860,959)	(4,320,000)
TSX Venture Composite Index				
Increase by 25% (2011: 25%)	7,364,835	5,382,000	100,122	974,890
Decrease by 25% (2011: 25%)	(7,364,835)	(5,382,000)	(100,122)	(974,890)

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

– *Price risk (continued)*

Sensitivity analysis on equity price risk of the financial assets at fair value through profit or loss and the available-for-sale financial assets listed in overseas stock exchanges other than TSX Venture has not been presented as the reasonably possible changes in their prices will have insignificant impact on the financial statements.

As mentioned in note 4(e), the directors estimate the fair value of those available-for-sale equity instruments which are not traded in an active market by analysis of respective investee's circumstances on case by case basis. Majority of these investments' fair values have been estimated by the directors based on unobservable market data. Accordingly, the directors consider it is not meaningful to present sensitivity analysis resulted from reasonably possible changes in prices of these investments.

– *Interest rate risk*

The Group's interest bearing financial assets are loans and receivables, accounts receivable and bank deposits. As the interest bearing loans and receivables, and accounts receivable carry fixed interest rates, the Group is not exposed to cash flow interest rate risk on these financial assets. The Group's bank deposits carry variable interest rates. Therefore, the Group is exposed to cash flow interest rate risk from bank deposits. Sensitivity analysis on cash flow interest rate risk has not been presented as the reasonably possible changes in interest rate will have insignificant impact on the financial statements.

The Group does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(ii) Credit risk

Counter parties and cash transactions are limited to those debtors, borrowers and investees considered by directors having a good credit standing and business prospect.

The bank balances and cash are placed with financial institutions that have a high credit rating and therefore the Group considers the credit risk on bank deposits to be insignificant.

The Group and the Company have concentration of credit risk as the Group's loans to its five (2011: five) investees account for 76% (2011: 95%) of the total carrying amount of the loans and receivables as at 31st December, 2012. The Group's and Company's loan to one of its borrowers accounts for 40% (2011: 47%) and 62% (2011: 50%) of the Group's and the Company's total carrying amount of accounts receivable respectively. Taking into account the financial position and business prospect of these investees and borrowers, the directors consider the borrowers should be able to meet their obligations to repay the debts (after impairment loss recognised by the Group). As the aforementioned borrowers are the Group's investees or potential investees, the Group is in a better position to assess the recoverability of the loans, recognise adequate impairment losses and enforce the repayment of loans. In this regard, the directors consider the exposure from concentration of credit risk is reduced to an acceptable level.

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(iii) Liquidity risk

Liquidity risk is the risk the Group is unable to meet its current obligations when they fall due.

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its investment commitments and daily operation.

The contractual undiscounted cash flows of the Group and the Company's financial liabilities approximate the aggregate carrying amount of the accounts payable and accruals and amount due to a related company as shown in note 28(a) which are payable within one year, as the impact of discounting is insignificant.

(b) Fair value estimation

For financial instruments that are measured in the statement of financial position at fair value, IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

28. FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value estimation (continued)

The following tables present the Group's and the Company's financial assets that are measured at fair value at 31st December, 2012 and 2011.

	Group			
	2012			
	Level 1	Level 2	Level 3	Total
	HK$	HK$	HK$	HK$
Available-for-sale financial assets				
Unlisted equity securities at fair value	–	–	81,902,520	81,902,520
Equity securities listed outside Hong Kong at fair value	–	558,140	–	558,140
Club debentures	–	3,150,000	–	3,150,000
	–	3,708,140	81,902,520	85,610,660
Financial assets at fair value through profit or loss				
Equity securities held for trading at market value listed in Hong Kong	24,834,946	–	–	24,834,946
Equity securities held for trading at market value listed outside Hong Kong	57,196,450	–	–	57,196,450
Derivative financial instruments	–	18,228,808	–	18,228,808
Convertible bond designated at fair value through profit or loss	–	–	5,000,000	5,000,000
	82,031,396	18,228,808	5,000,000	105,260,204
Total financial assets at fair value	82,031,396	21,936,948	86,902,520	190,870,864

28. FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value estimation (continued)

	Group			
	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$	HK$	HK$	HK$
Available-for-sale financial assets				
Unlisted equity securities at fair value	–	–	74,804,552	74,804,552
Equity securities listed outside Hong Kong at fair value	–	3,543,124	–	3,543,124
Club debentures	–	3,150,000	–	3,150,000
	–	6,693,124	74,804,552	81,497,676
Financial assets at fair value through profit or loss				
Equity securities held for trading at market value listed in Hong Kong	43,586,489	–	–	43,586,489
Equity securities held for trading at market value listed outside Hong Kong	21,779,009	–	–	21,779,009
Derivative financial instruments	–	–	3,581,809	3,581,809
	65,365,498	–	3,581,809	68,947,307
Total financial assets at fair value	65,365,498	6,693,124	78,386,361	150,444,983

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28. FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value estimation (continued)

	Company			
	2012			
	Level 1	Level 2	Level 3	Total
	HK$	HK$	HK$	HK$
Available-for-sale financial assets				
Unlisted equity securities at fair value	–	–	9,262,545	9,262,545
Club debentures	–	3,150,000	–	3,150,000
	–	3,150,000	9,262,545	12,412,545
Financial assets at fair value through profit or loss				
Equity securities held for trading at market value listed in Hong Kong	24,834,946	–	–	24,834,946
Equity securities held for trading at market value listed outside Hong Kong	2,243,235	–	–	2,243,235
	27,078,181	–	–	27,078,181
Total financial assets at fair value	27,078,181	3,150,000	9,262,545	39,490,726

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for the year ended 31st December, 2012

28. FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value estimation (continued)

	Company			
	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$	HK$	HK$	HK$
Available-for-sale financial assets				
Unlisted equity securities at fair value	–	–	5,700,000	5,700,000
Club debentures	–	3,150,000	–	3,150,000
	–	3,150,000	5,700,000	8,850,000
Financial assets at fair value through profit or loss				
Equity securities held for trading at market value listed in Hong Kong	43,586,489	–	–	43,586,489
Equity securities held for trading at market value listed outside Hong Kong	7,621,560	–	–	7,621,560
Derivative financial instruments	–	–	3,581,809	3,581,809
	51,208,049	–	3,581,809	54,789,858
Total financial assets at fair value	51,208,049	3,150,000	9,281,809	63,639,858

for the year ended 31st December, 2012

28. FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value estimation (continued)

The following table presents the changes in level 3 instruments of the Group and the Company during the year.

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
At 1st January	78,386,361	49,676,691	9,281,809	–
Total gains or losses:				
– in profit or loss (included in other gains and losses)	(16,126,015)	6,128,650	(7,481,809)	2,823,479
– in other comprehensive income	7,540,395	12,144,111	(334,455)	700,000
Purchases	16,688,542	8,098,750	7,797,000	–
Disposals	(1,938,152)	(3,420,171)	–	–
Reclassified from interest in an associate	2,351,389	–	–	–
Transfer from unlisted equity investment at cost	–	5,000,000	–	5,000,000
Transfer from derivative financial instruments at cost	–	758,330	–	758,330
At 31st December	86,902,520	78,386,361	9,262,545	9,281,809

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2012

28. FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value estimation (continued)

The amount of total gains or losses for the year included in profit or loss and other comprehensive income that are attributable to gains or losses relating to those level 3 financial assets held at the end of reporting period are as follows:

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Net gain (loss) for the year on level 3 financial assets held at the end of reporting period recognised in				
– profit or loss (included in other gains and losses)	(17,144,522)	2,709,479	(7,481,809)	2,823,479
– other comprehensive income	4,235,490	15,783,281	(334,455)	700,000
	(12,909,032)	18,492,760	(7,816,264)	3,523,479

For level 3 financial assets, changing one or more of the inputs to reasonably possible alternative assumptions used in the valuation of the investments as appropriate would not change their fair values significantly at the end of reporting period.

The directors consider all the financial instruments carried at cost or amortised cost are carried at amounts in the statements of financial position not materially different from their fair values.

29. 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 reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Fair value of unlisted equity investments

As described in note 4(e), the directors use their judgement in selecting an appropriate valuation technique for equity investments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied as appropriate.

The fair value of the Group's unlisted equity investments with aggregate carrying amount of HK$81,902,520 (2011: HK$74,804,552) as shown in note 15 are estimated based upon an analysis of respective investee's financial position and results, risk profile, nature of business, prospects, price of their recent transactions, other factors and assumptions not supported by observable market data, as well as reference to market valuations for similar entities quoted in an active market, current fair value of comparable investments or applicable price/earning ratios for comparable listed companies adjusted to reflect the circumstances of the investee, as appropriate.

Based on the directors' analysis on each of these unlisted investments, the directors consider it is appropriate to estimate the fair values of majority of these investments based on their net asset value attributable to the Group or discounted cash flows.

(b) Fair value of derivative financial instruments

Determining the fair values of the Group's derivative financial instruments which comprise the warrants, the embedded derivatives in the convertible bonds requires estimation on the assumptions used in Binomial model. Binomial model requires to estimate volatilities of the underlying share price and a suitable discount rate in order to calculate the fair values.

The assumptions used in valuation of the warrants and the embedded derivatives in the convertible bonds are set out in note 20. As at 31st December, 2012, a reasonably possible increase or decrease in volatility by 10% and other inputs kept constant, the fair value of the derivative financial instruments would not have a material change.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2012

29. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(c) Impairment of available-for-sale financial assets

The Group has available-for-sale financial assets which were stated at their fair values at the end of reporting period, on an individual basis. Any gains or losses are recognised on other comprehensive income and accumulated in a separate component of equity (i.e. fair value reserve) until the asset is derecognised or until the asset is determined to be impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss. The directors have to assess whether objective evidence of impairment exists in order to determine whether it is appropriate to reclassify the cumulative losses to profit or loss. In making its judgement, the directors consider (i) the future prospect of the underlying assets; (ii) the underlying financial position of the assets; and (iii) significant or prolonged decline in the fair values below the respective costs of the assets. The directors consider that objective evidence of impairment exists and the cumulative losses of HK$12,624,729 (2011: HK$115,000) for the year was charged to profit or loss.

(d) Impairment of loans made to investees, convertible bonds and accounts receivable

The directors regularly review the recoverability of loans made to investees including loan made to associate and convertible bonds, and accounts receivable. Appropriate impairment for estimated irrecoverable amounts is recognised in profit or loss when there is objective evidence that the amounts are not recoverable. In determining whether allowances for impairment loss are required, the directors take into consideration the aged status and likelihood of collection as well as the financial position of the counterparties. Specific allowance is made for loans and receivables that are unlikely to be collectible and is recognised based on the estimation of the present value of the future cash flows expected to be received by the Group discounted at the original effective interest rate. During the year, impairment losses on loans and receivables amounted to HK$1,708,524 (2011: HK$90,353).