CHINA FINANCIAL LEASING GROUP LIMITED

中國金融租賃集團有限公司 *

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2312

2012

ANNUAL REPORT

** For identification purpose only*

CONTENTS

COMPANY PROFILE

China Financial Leasing Group Limited (Stock Code: 2312, "CFLG" or the "Company", with its subsidiaries, collectively the "Group") is an investment company. Incorporated in the Cayman Islands, the Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in October 2002.

The Group is actively looking for more business opportunities to strengthen CFLG's business competitiveness in the future. Currently the Group is looking into environmental energy companies/ low-carbon living projects in China.

CFLG strives to create value for its shareholders, leveraging on favorable market conditions. With strong government industry support, unique investment approach, and in-depth knowledge of the investment market, CFLG would remain highly adaptive to market conditions and would continue to look out for opportunities in potential sectors.

VISION

To be the leading investor in China's investment market

MISSION

To generate maximum shareholder value through prudent investment

VALUES

Visionary – Striving to identify and leverage on attractive investment opportunities

Knowledgeable – making investment decisions based on intimate market knowledge and first-hand industry experience

Prudent – following a cautious investment strategy that minimizes downside risks and maximizes upside potential

CHAIRMAN'S STATEMENT

I am pleased to once again present you with the 2012 Annual Report of China Financial Leasing Group Limited (the "Company") for the year ended 31 December 2012.

During 2012, the Company's business was mainly investments in Hong Kong listed securities. Nevertheless, 2012 is a challenging year for securities investments in Hong Kong as the prolonged low daily turnover of around HK$30 billion to HK$40 billion rendered investment opportunities with reasonable rate of return difficult to seek. Although the trading volume had been thin as well, the volatility could be high. Worse still, most, if not all, of the news, financial figures and forecasts in the early to mid-2012 were unfavourable to the global stock markets. That further discouraged investors from investing in the stock market and turned investors to other investments. In my opinion, the diminished market is attributable to the following reasons:

CHINA ECONOMY

As there is an increasing number of stocks listed in Hong Kong which are heavily related to China, any change of the economic condition of China is influential to the Hong Kong stock market. The 2012 GDP growth forecast in China, one of the main drivers of global economic growth, announced by Chinese government officials was 7.5%. It was the first time that the growth forecast drops below 8% in eight years, due to the weakened external demand. It is a popular belief that the economic growth in China would be slowing down. On the other hand, the central government had implemented measures to stabilise commodity prices and to curb the asset bubbles in the real estate sector. The market sentiment was bearish as shown by continuously low daily turnover while the market indices kept seeking the bottom, and together with the poor performance of the China stock markets in recent years, all these have sent the Chinese investors into despair.

EUROPEAN DEBT CRISIS

The European debt crisis posted a devastating threat to many European financial institutions which had a substantial long position in European bonds and shocked not only European but the global stock markets. Hong Kong was no exception. Greece's difficulty in cutting its fiscal deficit according to austerity plan sparked the concern that it would default its sovereignty bond and trigger a chain reaction, impacting on those highly indebted Eurozone countries, spreading a flood of default to other Eurozone members, such as Spain, Ireland, Portugal, etc.

CHAIRMAN'S STATEMENT

SLOW RECOVERY OF THE US ECONOMY

The economic recovery of the US remained sluggish and American's confidence in the economy has not been restored, leading to weak demand for goods, further dragging the manufacturing and export industries in China as well as in Hong Kong. The second and third round of Quantitative Easing failed to show much promising results until the Federal Reserve announced the unlimited supply of money causing over-supply of money and driving up stock indices as well as asset prices. However, large enterprises and financial institutions have continued to carry out redundancy plans.

Although the major crises seemed to be alleviated in the fourth quarter of 2012 and the stock markets have recovered some lost ground, not all shares were benefited. In addition, economic prospect was still highly uncertain that we did not consider an aggressive approach of rushing into the stock market appropriate and therefore we should stay alert for sudden change of market sentiment.

PROSPECT

We believe that, a year after the introduction of the effectual economic stabilisation measures, the economy of China has gone out of the trough and will pick up a faster pace of growth this year. However, we also realise that there are numerous uncertainties that may impact on the global stock markets and lead to a complicated investment environment. As a result, we have strengthened our management team, introduced experienced professionals in different arenas and optimised internal control systems during the year. We have also enriched our capital base by approximately HK$39,000,000 from two fund raising activities that combined with our professional investment team. I am confident that we will be able to deliver a better performance in securities investments in 2013. Meanwhile, by leveraging on our competitive advantage, we will continue to look for other quality investment opportunities with a view to maximising our shareholders' return.

Last but not the least, allow me to extend my sincere gratitude to our shareholders for your continuing support. Appreciation also goes to the management team and all staff of the Group for their dedications and contributions in the past year.

Choy Kwok Hung, Patrick
Chairman
Hong Kong, 28 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 2012, the Company was mainly engaged in investments in Hong Kong listed securities for the purpose of short to medium term capital appreciation.

Facing the financial risks over the world, the global financial markets performed disappointedly over half of the time in 2012, compromising the value of the Company's portfolio. Furthermore, the increase in professional and legal expenses due to the fund-raising transactions and administrative expenses widened the loss for the year. As such, the Group has introduced measures to place tighter control on costing and increase operating efficiency.

The Group has invested RMB2,760,000 (approximately HK$3,341,000) for 12% equity interest in a private company in Beijing, the People's Republic of China ("PRC") which engaged in wholesale of high technology electronic products in 2011. The investment is recorded at cost and remained unchanged during the year ended 2012.

OUTLOOK

Looking forward, the European debt crisis has not yet been resolved while the economic recovery in the United States is still fragile, the global stock markets are expected to be adversely affected should there be any unfavourable news. The Company is optimistic on the growth in China and believe that Hong Kong would also be benefited. Therefore, it is expected that the Company will continue to invest in Hong Kong stock market in a prudent manner and to explore investment opportunities in China.

FINANCIAL REVIEW

As at 31 December 2012, the carrying value of the Group's listed equity investments were approximately HK$39,367,000 (2011: HK$19,361,000).

The Group recorded sales proceed from disposals of trading equity securities of approximately HK$49,804,000 for the year ended 31 December 2012 (2011: HK$39,239,000) and recorded a net loss on financial assets at fair value through profit or loss of approximately HK$6,055,000 (2011: loss of HK$2,397,000). Loss for the year was approximately HK$22,862,000 (2011: loss of HK$12,170,000) which was mainly attributable for the loss in securities investments, legal and professional fees incurred for, among others, share placing, share consolidation and capital reduction and operating expenses.

EQUITY INVESTMENTS

Listed below are the particulars of the Group's major listed equity investments as at 31 December 2012:

Name of Investee	Principal activities	Number of Shares	Percentage of interest held	Cost (HK$)	Market prices (HK$)	Market Value (HK$)	Dividend received for the year ended 31 December 2012 (HK$)	Percentage of investments attributable to the Group's net assets
Ming Kei Holdings Limited (8239)	Real estate investment	16,908,000	3.351	7,620,752	0.475	8,031,000	–	15.18
China Aerospace Int'l Holdings Limited (0031)	Manufacturing and distribution of plastic products	300,000	0.010	219,489	0.690	207,000	2,690	0.39
Harmonic Strait Financial Holdings Limited (0033)	Credit guarantee and investment	4,460,000	0.299	2,190,087	0.335	1,494,000	–	2.82
Yuexiu Real Estate Investment Trust (0405)	Real estate investment trust	50,000	0.002	165,838	3.680	184,000	–	0.35
Datronix Holdings Ltd. (0889)	Manufacturing and trading of electronic components	126,000	0.039	364,866	1.300	164,000	4,138	0.31
Active Group Holdings Limited (1096)	Manufacturing and sales of casual footwear, apparel	10,500,000	0.875	11,170,007	1.010	10,605,000	–	20.04
Newtree Group Holdings Limited (1323)	Manufacturing and trading of hygienic disposals	5,000,000	0.750	10,040,577	2.020	10,100,000	–	19.09
Yantai North Andre Juice Co., Ltd. (2218)	Manufacturing and sale of fruit juices	200,000	0.013	59,213	0.310	62,000	1,130	0.12
Tech Pro Technology Development Ltd. (3823)	Manufacturing and sale of aluminium electrolytic capacitors	3,000,000	0.279	8,640,924	2.840	8,520,000	–	16.10

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

As at 31 December 2012, the Group had maintained cash and cash equivalents of approximately HK$8,300,000 (2011: HK$11,487,000) which were mainly denominated in Hong Kong dollars. The Group will monitor the exposure and take prudent measures when necessary.

The gearing ratio of the Group as at 31 December 2012 was Nil (31 December 2011: Nil).

The Group had net assets of approximately HK$52,916,000 (2011: HK$36,025,000) and there were no borrowings or long-term liabilities as at 31 December 2012 (2011: Nil).

CAPITAL STRUCTURE

On 10 January 2012, the Company issued 3,942,292,080 bonus shares pursuant to the bonus issue on the basis of four bonus shares for every then existing share held by the qualifying shareholders on 4 January 2012. On 27 January 2012, the Company changed the board lot size for trading of the shares from 15,000 shares to 20,000 shares. Details of which were disclosed in the circular of the Company dated 5 December 2011.

On 20 February 2012, the Company consolidated every twenty issued and unissued shares of HK$0.01 each into one consolidated share of HK$0.20 each. Details of which were disclosed in the circular of the Company dated 2 February 2012.

On 2 March 2012, the Company issued 49,260,000 shares under the placing agreement entered into between the Company and Orient Securities Limited as placing agent on 23 February 2012, and the net proceeds of the placing were approximately HK$11.3 million. Details of which were disclosed in the announcements of the Company dated 23 February 2012, 27 February 2012 and 2 March 2012.

On 25 June 2012, the Company issued 147,826,627 offer shares pursuant to the open offer on the basis of one offer share for every two then existing shares held by the qualifying shareholders on 31 May 2012. Details of which were disclosed in the circular of the Company dated 1 June 2012.

Pursuant to a special resolution passed by the shareholders of the Company at an extraordinary general meeting held on 8 August 2012, the issued share capital of the Company was proposed to be reduced by reducing the par value of each of the issued shares of the Company from HK$0.20 to HK$0.02 by cancelling the paid-up capital to the extent of HK$0.18 per issued share (the "Capital Reduction"). Part of the credit arising from such reduction will be applied towards cancelling the accumulated loss of the Company, while the balance (if any) will be transferred to the capital reduction reserve account of the Company in accordance with the Articles and all applicable laws. Immediately following the Capital Reduction becomes effective, each authorised but unissued share will also be sub-divided into 10 new shares with a par value of HK$0.02 each. On 10 December 2012, all the conditions precedent including the approval from the Grant Court of the Cayman Islands had been sought and the Capital Reduction became effective on the same date. As such, accumulated losses up to the same date amounting to HK$60,382,000 has been offset and the remaining HK$19,444,000 has been transferred to capital reduction reserve.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENT AFTER REPORT DATE

There were no significant events occurred after the balance sheet date and the date of this report.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group has not made any material acquisition or disposal of subsidiaries during the year under review.

EMPLOYEE BENEFITS

As at 31 December 2012, the Group had 17 employees, including 2 executive Directors. Total salary and housing cost for the year ended 31 December 2012 was approximately HK$4,868,000 and Directors' fees were approximately HK$1,758,000. The remuneration policy of the Group is reviewed annually and employees are remunerated based on their performance, experience and the prevailing market practice. No director or executive is involved in dealing with his own remuneration.

In addition to salary payments, the Company has participated in the Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Pursuant to the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at 5% of their monthly relevant income.

The Company maintains a share option scheme, pursuant to which share options are granted to selected directors or employees of the Group, with a view to attract and retain quality personnel and to provide them with incentive to contribute to the business and operation of the Group. On 12 January 2012, an ordinary resolution was passed in an extraordinary general meeting that the share option scheme adopted on 7 October 2012 was terminated and a new share option scheme was adopted. During the year, no share options were granted to any directors, employees or eligible participants of the Group under any of the Company's share option schemes. Details of the termination of the old share option scheme and the adoption of the new share option scheme are disclosed in the Share Option Scheme section of the Corporate Governance Report below.

CHARGES ON GROUP ASSETS

During the year, there were no charges on the Group's assets (2011: Nil).

FOREIGN EXCHANGE EXPOSURE

During the year 2012, the investments of the Group were mainly denominated in Hong Kong dollars and US dollars. Since Hong Kong dollars are pegged to US dollars, significant exposure is not expected in US dollar transactions and balances.

CONTINGENT LIABILITIES

During the year, there were no contingent liabilities noted by the Directors (2011: Nil).

SIGNIFICANT INVESTMENTS

The Group has conducted serious evaluation on financial leasing investment opportunities in the PRC, and in the process we also kept a close look on other investment opportunities. An investment has been made in a company in the PRC providing LED solution, the Group has invested RMB2,400,000 (equivalent to HK$3,341,000), which equalled to 12% of the equity in the investment, during the year ended 31 December 2011.

FINAL DIVIDEND

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil)

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standards and procedures to ensure the integrity, transparency and quality of disclosure, thereby enhancing shareholder value.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and in the Corporate Governance Code (effective from 1 April 2012) (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) as its own code of corporate governance practices.

During the year ended 31 December 2012, the Company was in compliance with the code provisions set out in the CG Code except for the deviation from code provision A.4.1.

Code provision A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term and subject to re-election. The independent non-executive Directors are not appointed for a specific term but they are subject to retirement by rotation at least once in every three years in accordance with the Articles of Association of the Company (the “Articles”).

Save as aforesaid and in the opinion of the Directors, the Company was in compliance with the code provisions set out in the CG Code during the year ended 31 December 2012.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the required standards of dealings regarding securities transactions by Directors as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules.

All the Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2012.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group’s businesses, investment and strategic decisions and performance. The Board delegated authority and responsibility for day-to-day portfolio management of the Group to the Investment Manager, while reserving certain key matters for the approval by the Board. In addition, the Board has also delegated various responsibilities to the Board committees.

Further details of these committees are set out in this report. The Board currently consists of nine Directors including two executive Directors, three non-executive Directors and four independent non-executive Directors:

Executive Directors
Mr. Choy Kwok Hung, Patrick *(Chairman)*
Mr. Chan Chi Hung *(Managing Director)*

Non-executive Director
Mr. Wang Qiang *(Deputy Chairman)*
Mr. Yang Nai Jiang *(Deputy Chairman)*
Mr. John Yen Jong Ling

Independent non-executive Directors
Mr. Chan Kam Man
Ms. Kwok Yuen Lam, Sophia
Mr. William Keith Jacobsen
Ms. Chan Man Yi

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors are set out under the section headed "Biographical Details of Directors" on pages 21 to 26 of this report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The two positions are held separately by two individuals to ensure their respective independence, accountability and responsibility. Mr. Choy Kwok Hung, Patrick, the Chairman of the Company, is in charge of the management of the Board and strategic planning of the Group. Mr. Chan Chi Hung, the Managing Director of the Company, is acting as the role of chief executive officer and is responsible for the day-to-day management of the Group's business.

NON-EXECUTIVE DIRECTORS

The Company has three non-executive Directors, namely Mr. Wang Qiang, Mr. John Yen Jong Ling and Mr. Yang Nai Jiang. Both Mr. Wang and Mr. Yen have entered into appointment letters with the Company with no specific term for appointment. In accordance with the Articles, they are subject to retirement at the Company's next annual general meeting after their appointments.

There is no service contract entered into between the Company and Mr. Yang and the term of appointment of Mr. Yang as the Deputy Chairman and a non-executive Director is three years commencing from 31 August 2011.

All the non-executive Directors are subject to retirement by rotation at least once in every three years in accordance with the Articles.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

The four independent non-executive Directors are persons of high calibre, with academic and professional qualifications, and extensive experience in the fields of accounting, financial and banking, legal and corporate finance. With their extensive experience, they provide strong support towards the effective discharge of the duties and responsibilities of the Board.

All independent non-executive Directors have given their annual confirmation of independence to the Company, and the Company considered that they are independent under Rule 3.13 of the Listing Rules.

All independent non-executive Directors are not appointed for a specific term, but they are subject to retirement by rotation in accordance with the Articles.

BOARD MEETINGS

The Board has 4 scheduled meetings a year at quarterly intervals and additional meetings will be held as and when required. The 4 scheduled Board meetings for the year are planned in advance in order to make sure all Directors could plan in advance their availability to attend the scheduled Board meetings. During the regular Board meetings, the Board reviewed the operation and financial performance, and reviewed and approved the annual and interim results.

During the year ended 31 December 2012, the Board has held 19 meetings. All Directors are given an opportunity to include any matters in the agenda for regular Board meetings and are given sufficient time to review documents and information relating to matters to be discussed during the Board meetings in advance.

Details of the attendance of the board of Directors' meetings are as follows:

Name of Directors	Attendance/Number of meetings
Executive Directors	
Mr. Choy Kwok Hung, Patrick *(Chairman)*	8/8
Mr. Chan Chi Hung *(Managing Director)*	8/8
Mr. Lin Wen Pin[1]	2/2
Non-executive Directors	
Mr. Yang Nai Jiang *(Deputy Chairman)*	11/19
Mr. Wang Qiang *(Deputy Chairman)*[2]	–
Mr. John Yen Jong Ling[2]	–
Independent Non-executive Directors	
Mr. Chung Koon Yan[3]	19/19
Mr. Yue Man Yiu, Matthew[4]	19/19
Mr. Chung Shu Kun, Christopher[4]	15/19
Mr. Chan Kam Man[5]	11/12
Ms. Kwok Yuen Lam, Sophia[5]	12/12
Ms. Mak Man Yi, Jackie[5]	9/12
Mr. William Keith Jacobsen[6]	–
Ms. Chan Man Yi[6]	–

1. Mr. Lin Wen Pin resigned on 1 February 2012.
2. Mr. Wang Qiang and Mr. John Yen Jong Ling were appointed on 18 January 2013.
3. Mr. Chung Koon Yan resigned on 18 January 2013.
4. Mr. Yue Man Yiu, Matthew and Mr. Chung Shu Kun, Christopher resigned on 1 February 2013.
5. Mr. Chan Kam Man, Ms. Kwok Yuen Lam, Sophia and Ms. Mak Man Yi, Jackie were appointed on 30 May 2012. Ms. Mak resigned subsequently on 28 March 2013.
6. Mr. William Keith Jacobsen and Ms. Chan Man Yi were appointed on 1 February 2013.

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

Appropriate insurance cover has been arranged in respect of relevant actions against its Directors.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed Director would receive an induction covering the Group's business operations, policies and procedures and the statutory and regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills. The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are issued to Directors and senior management where appropriate, to ensure awareness of best corporate governance practices.

According to the records provided by the Directors, during the period from 1 April 2012 to 31 December 2012, the Directors participated in the following trainings:

Name of Directors	Type of trainings
Executive Directors	
Mr. Choy Kwok Hung, Patrick *(Chairman)*	A, B
Mr. Chan Chi Hung *(Managing Director)*	A, B
Mr. Lin Wen Pin[1]	–
Non-executive Directors	
Mr. Yang Nai Jiang *(Deputy Chairman)*	–
Mr. Wang Qiang *(Deputy Chairman)*[2]	–
Mr. John Yen Jong Ling[2]	–
Independent Non-executive Directors	
Mr. Chung Koon Yan[3]	A, B
Mr. Yue Man Yiu, Matthew[4]	A, B
Mr. Chung Shu Kun, Christopher[4]	A, B
Mr. Chan Kam Man[5]	A, B
Ms. Kwok Yuen Lam, Sophia[5]	A, B
Ms. Mak Man Yi, Jackie[5]	A, B
Mr. William Keith Jacobsen[6]	–
Ms. Chan Man Yi[6]	–

A: attending seminars and/or conferences and/or forums relating to directors' duties
B: reading newspaper, journals and updates relating to the economy, general business or directors' duties etc.

1. Mr. Lin Wen Pin resigned on 1 February 2012.
2. Mr. Wang Qiang and Mr. John Yen Jong Ling were appointed on 18 January 2013.
3. Mr. Chung Koon Yan resigned on 18 January 2013.
4. Mr. Yue Man Yiu, Matthew and Mr. Chung Shu Kun, Christopher resigned on 1 February 2013.
5. Mr. Chan Kam Man, Ms. Kwok Yuen Lam, Sophia and Ms. Mak Man Yi, Jackie were appointed on 30 May 2012. Ms. Mak resigned subsequently on 28 March 2013.
6. Mr. William Keith Jacobsen and Ms. Chan Man Yi were appointed on 1 February 2013.

NOMINATION OF DIRECTORS

The Nomination Committee was established on 21 December 2011 with written terms of reference in compliance with the Listing Rules, and currently consists of one executive Director, namely Mr. Choy Kwok Hung, Patrick and three independent non-executive Directors, namely Ms. Kwok Yuen Lam, Sophia (chairman of the Nomination Committee), Mr. William Keith Jacobsen and Ms. Chan Man Yi.

The Nomination Committee is mainly responsible for reviewing the structure, size and composition of the Board, identifying qualified individuals to become members of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors.

During the year, a total of 3 Nomination Committee meetings were held. Details of the attendance of the Nomination Committee meetings are as follows:

Name of Nomination Committee members	Attendance/Number of meetings
Mr. Choy Kwok Hung, Patrick	3/3
Mr. Yue Man Yiu, Matthew[1]	3/3
Mr. Chung Koon Yan[2]	3/3
Ms. Kwok Yuen Lam, Sophia[3]	1/1
Mr. William Keith Jacobsen[4]	–
Ms. Chan Man Yi[4]	–

1. Mr. Yue Man Yiu, Matthew resigned on 1 February 2013.
2. Mr. Chung Koon Yan resigned on 18 January 2013.
3. Ms. Kwok Yuen Lam, Sophia was appointed on 30 May 2012.
4. Mr. William Keith Jacobsen and Ms. Chan Man Yi were appointed on 1 February 2013.

REMUNERATION OF DIRECTORS

The Company established the Remuneration Committee on 28 June 2005 with written terms of reference in compliance with the Listing Rules, and currently consists of two independent non-executive Directors, namely Ms. Kwok Yuen Lam, Sophia (chairman of the Remuneration Committee) and Mr. William Keith Jacbosen, and one executive Director, namely Mr. Chan Chi Hung.

The Remuneration Committee is mainly responsible for the determination of the specific remuneration packages of all executive Directors and senior management (including benefits in kind, pension rights and compensation payments), making recommendations to the Board on the matters relating to the Company's policy and structure for the remuneration of the Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

CORPORATE GOVERNANCE REPORT

During the year, a total of 7 Remuneration Committee meetings were held. Details of the attendance of the Remuneration Committee meetings are as follows:

Name of Remuneration Committee members	Attendance/Number of meetings
Mr. Chan Chi Hung	7/7
Mr. Yue Man Yiu, Matthew[1]	7/7
Mr. Chung Koon Yan[2]	7/7
Ms. Mak Man Yi, Jackie[3]	4/4
Ms. Kwok Yuen Lam, Sophia[4]	–
Mr. William Keith Jacobsen[5]	–

1. Mr. Yue Man Yiu, Matthew resigned on 1 February 2013.
2. Mr. Chung Koon Yan resigned on 18 January 2013.
3. Ms. Mak Man Yi, Jackie was appointed on 30 May 2012 and resigned subsequently on 28 March 2013.
4. Ms. Kwok Yuen Lam, Sophia was appointed as member of Remuneration Committee on 18 January 2013.
5. Mr. William Keith Jacobsen was appointed on 1 February 2013.

AUDITOR'S REMUNERATION

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system and internal control procedures. During the year under review, the remuneration paid/payable to the Company's auditor, BDO Limited, is set out below:

	Fee paid/payable *HK$'000*
Audit services	250
Non-audit services	80
	330

AUDIT COMMITTEE

The Audit Committee was established on 7 October 2002. The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Chan Kam Man (chairman of the Audit Committee), Mr. William Keith Jacobsen and Ms. Chan Man Yi.

The terms of reference adopted by the Audit Committee are aligned with the code provisions set out in the CG Code.

The Audit Committee shall meet the external auditor to discuss any area of concern during the audit or review. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of standards, but also on the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

During the year, the Audit Committee held 2 meetings and has reviewed the unaudited interim results and audited annual results of the Group for the year ended 31 December 2012 together with the auditor of the Company. In the opinion of the Audit Committee, the preparation of such results complied with the applicable accounting standards and the Listing Rules.

Details of the attendance of the Audit Committee meetings are as follows:

Name of Audit Committee members	Attendance/Number of meetings
Mr. Yue Man Yiu, Matthew[1]	2/2
Mr. Chung Shu Kun, Christopher[1]	2/2
Mr. Chung Koon Yan[2]	2/2
Ms. Chan Kam Man[3]	1/1
Mr. William Keith Jacobsen[4]	–
Ms. Chan Man Yi[4]	–
Ms. Mak Man Yi, Jackie[5]	–

1. Mr. Yue Man Yiu, Matthew and Mr. Chung Shu Kun, Christopher resigned on 1 February 2013.
2. Mr. Chung Koon Yan resigned on 18 January 2013.
3. Mr. Chan Kam Man was appointed as the chairman of Audit Committee on 26 June 2012.
4. Mr. William Keith Jacobsen and Ms. Chan Man Yi were appointed on 1 February 2013.
5. Ms. Mak Man Yi, Jackie was appointed as member of Audit Committee on 1 February 2013 and resigned subsequently on 28 March 2013.

COMPANY SECRETARY

During the year ended 31 December 2012, the Company Secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

SHAREHOLDERS' RIGHTS

The Company commits to place shareholders' interests as top priority and protect their rights as provided in the Articles. Shareholders can visit the Company's website (www.cflg.com.hk) to gain access to the Company's up-to-date information. They are entitled to be given due notice to attend all the general meetings of the Company, vote all the resolutions (except for those which shareholders may have conflict of interest and are required to abstain from voting) and raise questions to the management on the Company's status and development plans.

Shareholders as duly registered holders of the ordinary shares of the Company ("Members") are also entitled to requisition to convene an extraordinary general meeting in accordance with the Articles. Details of the requirements and procedures are as follows:

(i) Any one or more Members holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company may send a written requisition to the Board or the Company Secretary to convene a general meeting.

(ii) The requisition must be duly signed by the requisitionist, specifying the requisitionist's name, contact details and the number of ordinary shares of the Company that the requisitionist is holding and the matters proposed to be discussed and transacted in the general meeting. The requisition must be deposited at the Company's principal place of business in Hong Kong at Room A-C, 3/F, Golden Sun Centre, 59 Bonham Strand West, Sheung Wan, Hong Kong.

(iii) The Company will verify the requisition and upon confirming that the requisition is proper and in order, the Board will proceed with the necessary procedures including the convening of a general meeting.

(iv) The general meeting shall be held within two (2) months after the deposit of the requisition. If the Board does not within twenty-one (21) days from the date of the deposit of the requisition proceed duly to convene a general meeting, the requisitionist himself may convene a general meeting in the same manner.

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders so that they can exercise their rights in an informed manner. Information about the Company is disseminated to the shareholders through:

- delivery of interim and annual results and reports to all shareholders;

- publication of announcements on interim and annual results on the websites of the Company and the Stock Exchange, and issuance of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

- the general meeting of the Company is an effective communication channel between the Board and shareholders. As such, the chairman of the Board attended the 2012 annual general meeting and most of the Directors attended other extraordinary general meetings during the year to provide shareholders with opportunities to understand the latest development of the Group and raise questions.

The 2012 annual general meeting was held on 23 May 2012 and there were three extraordinary general meetings respectively held on 12 January 2012, 17 February 2012 and 8 August 2012. The attendance record of the Directors at the general meetings is set out below:

Name of Directors	Attendance/Number of general meetings
Executive Directors	
Mr. Choy Kwok Hung, Patrick *(Chairman)*	2/4
Mr. Chan Chi Hung *(Managing Director)*	3/4
Mr. Lin Wen Pin[1]	1/1
Non-executive Directors	
Mr. Yang Nai Jiang *(Deputy Chairman)*	3/4
Mr. Wang Qiang *(Deputy Chairman)*[2]	–
Mr. John Yen Jong Ling[2]	–
Independent Non-executive Directors	
Mr. Chung Koon Yan[3]	4/4
Mr. Yue Man Yiu, Matthew[4]	3/4
Mr. Chung Shu Kun, Christopher[4]	2/4
Mr. Chan Kam Man[5]	1/1
Ms. Kwok Yuen Lam, Sophia[5]	0/1
Ms. Mak Man Yi, Jackie[5]	1/1
Mr. William Keith Jacobsen[6]	–
Ms. Chan Man Yi[6]	–

1. Mr. Lin Wen Pin resigned on 1 February 2012.
2. Mr. Wang Qiang and Mr. John Yen Jong Ling were appointed on 18 January 2013.
3. Mr. Chung Koon Yan resigned on 18 January 2013.
4. Mr. Yue Man Yiu, Matthew and Mr. Chung Shu Kun, Christopher resigned on 1 February 2013.
5. Mr. Chan Kam Man, Ms. Kwok Yuen Lam, Sophia and Ms. Mak Man Yi, Jackie were appointed on 30 May 2012. Ms. Mak resigned subsequently on 28 March 2013.
6. Mr. William Keith Jacobsen and Ms. Chan Man Yi were appointed on 1 February 2013.

Except for the share consolidation and capital reduction that took place in February and December 2012 which have affected the par value of the share capital of the Company and thus the relevant section of the Articles, there were no significant changes in the Company's constitutional documents during the year. For details of the transactions of the share consolidation and capital reductions, please refer to the Capital Structure section of the Management Discussion and Analysis.

DIRECTORS RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's accounts for each financial period and to ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of the financial statements. The Directors, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE FUNCTIONS

The Board as a whole is responsible for performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

INTERNAL CONTROL

The Board has overall responsibility for maintaining a proper and effective system of internal control of the Group.

The internal control system includes safeguard of the interest of shareholders and the Group's assets. The Board has delegated to management for the implementation of all relevant financial, operational, compliance controls and risk management function within a defined framework. During the year ended 31 December 2012, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. The Board shall conduct such review at least once annually.

EXECUTIVE DIRECTORS

Mr. Choy Kwok Hung, Patrick, aged 70, was appointed as the Chairman and a non-executive Director of the Company on 14 June 2007, and he has been re-designated as an executive Director of the Company with effective from 18 December 2008. He is also the chairman of the Nomination Committee. He is responsible for strategic development of the Group. He is the founder and chairman of Global Strategy Group Limited. He is an independent non-executive director of Solomon Systech (International) Limited, a company listed on the Stock Exchange. He had been an independent non-executive director of Road King Infrastructure Limited, a company listed on the Stock Exchange, up to 21 May 2009 and an independent non-executive director of Evergro Properties Limited, a company listed on the Stock Exchange of Singapore, up to 20 April 2009. He is a member of the National Committee of the Chinese People's Political Consultative Conference. Save as aforesaid, he did not hold any directorship in other listed public companies in the past three years.

There is no service contract entered into between the Company and Mr. Choy and no specific term of length of service. He is subject to retirement by rotation at least once in every three years in accordance with the Articles. Mr. Choy is entitled to a director's fee of HK$360,000 per annum, which is determined by the Board with reference to the recommendation of the Remuneration Committee and the prevailing market conditions.

Mr. Choy is the father of Mr. Choy Git Yan, Timothy, the General Manager of the Company. Save as foresaid, Mr. Choy does not have any relationship with any other Director, senior management, substantial shareholders (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") of controlling shareholders (as defined in the Listing Rules) of the Company and does not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571, Law of Hong Kong) (the "SFO").

Mr. Chan Chi Hung, aged 40, was appointed as an executive Director of the Company on 26 April 2007 and was appointed as the Managing Director of the Company on 12 April 2010. He is the sole director of each of the subsidiaries of the Company. He is also a member of the Remuneration Committee. He is responsible for setting out the business development strategy of and identifying investment opportunities for the Group. Mr. Chan was the managing director of a leading foreign-owned leasing company in China. His expertise includes structuring of leveraged leasing and cross-border leasing for overseas listed State-owned Enterprises. Before his active participation in the financial leasing industry, Mr. Chan was previously the investment manager of Springfield Financial in charge of its private equity, fund-of-funds and fixed income investments portfolio. Prior to that, he was with J.P. Morgan Chase. He is currently a non-executive director of Build King Holdings Limited, a company listed on the Stock Exchange. Save as aforesaid, he did not hold any directorship in other listed public companies in the past three years.

There is no service contract entered into between the Company and Mr. Chan and no specific term of length of service. He is subject to retirement by rotation at least once in every three years in accordance with the Articles. Mr. Chan is entitled to a director's fee of HK$300,000 per annum which is determined by the Board with reference to the recommendation of the Remuneration Committee and the prevailing market conditions.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Chan does not have any relationship with any other Director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company and does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

NON-EXECUTIVE DIRECTORS

Mr. Wang Qiang, aged 41, was appointed as the Deputy Chairman and a non-executive Director of the Company on 18 January 2013. He completed professional studies in Law from Shanxi University in 1993. In 1995, he founded 天津市協福經貿開發有限公司 (Tianjin City Xiefu Economic and Trading Development Limited), a company engaged in coal and coke trading business. Mr. Wang is currently the general manager and legal representative of the company.

Mr. Wang has entered into an appointment letter with the Company with no specific term for appointment. In accordance with the Articles, he is subject to retirement at the Company's next annual general meeting after his appointment and thereafter subject to retirement by rotation at least once in every three years. The remuneration of Mr. Wang is HK$360,000 per annum which is determined by the Board with reference to his respective qualification and experiences, his respective duties and responsibilities with the Company, the Company's performance and the prevailing market situation.

Mr. Wang does not hold any other position with the Company or its subsidiaries, nor has he held any directorship in other listed public companies in the past three years. He does not have any relationship with other directors, senior management, substantial or controlling shareholders of the Company and does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. John Yen Jong Ling, aged 51, was appointed as a non-executive Director of the Company on 18 January 2013. Mr. Yen holds a Master's degree in Business Administration from State University of New York at Buffalo and a Master's degree in Science, from New York University. He also holds the professional qualifications of CFA and FRM as well as the professional licenses for Type 9 (Asset management) and Type 4 (Advising on securities) regulated activities under the SFO. Currently, he is the founder and chief executive officer of Yuan Asset Management Limited.

For the past more than 20 years, Mr. Yen has held various senior positions with different financial institutions in New York, Hong Kong and Taiwan. He had been a director of China Merchants Securities (HK) Co., Limited from 2007 to 2011, an executive director of AVANTA Investment (International) Limited from 2006 to 2007, responsible for fund management and investment advisory services. In 2004, he was a managing director of Crosby Asset Management (Hong Kong) Limited and was responsible for setting up a fund. Between 2001 and 2003, he was the president of Hwa Yu Securities Investment Advisory Company and was responsible for promoting investment advisory services and managing discretionary accounts. Mr. Yen had also been an independent non-executive director of First China Financial Network Holdings Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8123) during the period from 2008 to 2010. With over 20 years of exposures in investing in the international capital market, Mr. Yen has vast experience in fund management including mutual fund, pension fund, insurance investment portfolio and management of institutional accounts.

Mr. Yen has entered into an appointment letter with the Company with no specific term for appointment. In accordance with the Articles, he is subject to retirement at the Company's next annual general meeting after his appointment and thereafter subject to retirement by rotation at least once in every three years. The remuneration of Mr. Yen is HK$360,000 per annum which is determined by the Board with reference to his respective qualification and experiences, his respective duties and responsibilities with the Company, the Company's performance and the prevailing market situation.

Mr. Yen does not hold any other position with the Company or its subsidiaries, nor has he held any directorship in other listed public companies in the past three years. He does not have any relationship with other directors, senior management, substantial or controlling shareholders of the Company and does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Yang Nai Jiang, aged 48, was appointed as the Deputy Chairman and a non-executive Director of the Company on 31 August 2011. He has over 16 years' experience in ironware industry. He is the founder and an executive director of 金正江大五金塑膠製品有限公司 (Jinzheng Jiangda Ironware and Plastic Products Company Limited). He did not hold any directorship in other listed public companies in the past three years.

There is no service contract entered into between the Company and Mr. Yang and the term of appointment of Mr. Yang as the Deputy Chairman and a non-executive Director is three years commencing from 31 August 2011. He is subject to retirement by rotation at least once in every three years in accordance with the Articles. He is entitled to a director's fee of HK$360,000 in 2012 which is determined by the Board with reference to the recommendation of the Remuneration Committee and the prevailing market conditions.

Mr. Yang does not have any relationship with any other Director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company and does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Kam Man, aged 50, was appointed as an independent non-executive Director and member of Audit Committee of the Company on 30 May 2012 and later the chairman of the committee on 26 June 2012. He obtained the Honours Diploma in Accountancy from Lingnan College and the degree of Master of Business Administration from the University of South Australia. He is an associate member of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Chan has over 26 years of experience in accounting and finance. Mr. Chan is currently the managing director of CL Partners CPA Limited, a director of Eastern Empire Investments Limited and Venture Strategic Advisory Limited and an independent non-executive director of Henry Group Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 859).

Mr. Chan has entered into an appointment letter with the Company with no specific term for appointment. In accordance with the Articles, he is subject to retirement at the Company's next annual general meeting after his appointment and thereafter subject to retirement by rotation at least once in every three years. The remuneration of Mr. Chan is HK$240,000 per annum which is determined by the Board with reference to his respective qualification and experiences, his respective duties and responsibilities with the Company, the Company's performance and the prevailing market situation.

Save as disclosed above, Mr. Chan does not hold any other position with the Company or its subsidiaries, nor has he held any directorship in other listed public companies in the past three years. He does not have any relationship with other directors, senior management, substantial or controlling shareholders of the Company and does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Ms. Kwok Yuen Lam, Sophia, aged 32, was appointed as an independent non-executive Director and a member of the Nomination Committee on 30 May 2012. She was subsequently appointed as the chairman of the Nomination Committee and Remuneration Committee on 26 June 2012 and 1 February 2013 respectively. She obtained the degree of Master of Laws in Information Technology and Intellectual Property Law from The University of Hong Kong, the Postgraduate Certificate in Laws from City University of Hong Kong, a Juris Doctor from City University of Hong Kong and the degree of Bachelor of Fine Arts (Graphic Design) from California College of the Arts. She has over 8 years of experience in legal field. She is a solicitor of the High Court of Hong Kong with a current Practising Certificate and a member of the Law Society of Hong Kong and currently works an assistant solicitor of Messrs. Jesse H.Y. Kwok & Co., Solicitors & Notaries.

Ms. Kwok has entered into an appointment letter with the Company with no specific term for appointment. In accordance with the Articles, she is subject to retirement at the Company's next annual general meeting after her appointment and thereafter subject to retirement by rotation at least once in every three years. The remuneration of Ms. Kwok is HK$240,000 per annum which is determined by the Board with reference to her respective qualification and experiences, her respective duties and responsibilities with the Company, the Company's performance and the prevailing market situation.

Save as disclosed above, Ms. Kwok does not hold any other position with the Company or its subsidiaries, nor has she held any directorship in other listed public companies in the past three years. She does not have any relationship with other directors, senior management, substantial or controlling shareholders of the Company and does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. William Keith Jacobsen, aged 46, was appointed as an independent non-executive Director, a member of the Nomination Committee, the Remuneration Committee and the Audit Committee of the Company on 1 February 2013. He is the managing director of a licensed corporation to advise on corporate finance matters. Mr. Jacobsen has more than 20 years of experience in corporate finance and business development. He is an executive director of Auto Italia Holdings Limited (formerly known as Wo Kee Hong (Holdings) Limited, stock code: 720) and is also an independent non-executive director of Hycomm Wireless Limited (stock code: 499), Perception Digital Holdings Limited (stock code: 1822), Sustainable Forest Holdings Limited (stock code: 723) and abc Multiactive Limited (stock code 8131). He was also an independent non-executive director of King Stone Energy Group Limited (stock code: 663) for the period from 26 September 2008 to 30 September 2011. He holds a Bachelor of Law degree from the University of Hong Kong and a Master of Business Administration degree from the University of British Columbia, Canada.

Mr. Jacobsen has entered into an appointment letter with the Company with no specific term for appointment. In accordance with the Articles, he is subject to retirement at the Company's next annual general meeting after his appointment and thereafter subject to retirement by rotation at least once in every three years. The remuneration of Mr. Jacobsen is HK$120,000 per annum which is determined by the Board with reference to his respective qualification and experiences, his respective duties and responsibilities with the Company, the Company's performance and the prevailing market situation.

Save as disclosed above, Mr. Jacobsen does not hold any other position with the Company or its subsidiaries, nor has he held any directorship in other listed public companies in the past three years. He does not have any relationship with other directors, senior management, substantial or controlling shareholders of the Company and does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Ms. Chan Man Yi, aged 48, was appointed as an independent non-executive Director, a member of the Nomination Committee and the Audit Committee of the Company on 1 February 2013. She graduated from the Hong Kong Polytechnic University with a Master's degree in professional accounting and has over 22 years of experience in pension and provident fund industry. She is currently the company secretary of Glory Mark Hi-Tech (Holdings) Limited, a company listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (stock code: 8159). Ms. Chan is a member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants.

Ms. Chan has entered into an appointment letter with the Company with no specific term for appointment. In accordance with the Articles, she is subject to retirement at the Company's next annual general meeting after her appointment and thereafter subject to retirement by rotation at least once in every three years. The remuneration of Ms. Chan is HK$120,000 per annum which is determined by the Board with reference to her respective qualification and experiences, her respective duties and responsibilities with the Company, the Company's performance and the prevailing market situation.

Save as disclosed above, Ms. Chan does not hold any other position with the Company or its subsidiaries, nor has she held any directorship in other listed public companies in the past three years. She does not have any relationship with other directors, senior management, substantial or controlling shareholders of the Company and does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

The Board is pleased to submit their report together with the audited financial statements of China Financial Leasing Group Limited (the "Company") and of the consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year 31 December 2012.

PRINCIPAL ACTIVITIES

The Group is principally engaged in short to medium term capital appreciation by investing in a diversified portfolio of investments in listed securities in Hong Kong and overseas on a general perspective as well as loan financing business and the investment in the financial leasing business in the PRC.

Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements.

RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 31 December 2012 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 35 to 81.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2012.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 21 to the financial statements.

SHARE OPTION SCHEME

Old Share Option Scheme

The Company conditionally adopted a share option scheme (the "Old SO Scheme") on 7 October 2002 (the "Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Eligible participants of the Old SO Scheme included any persons who were employees, officers, agents, consultants or representatives of the Group. The Old SO Scheme became unconditional on 28 October 2002 upon the listing of the Company's shares on the Stock Exchange and, unless otherwise cancelled or amended, shall remain in force for 10 years from the Adoption Date. The Old SO Scheme was terminated pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 12 January 2012.

REPORT OF THE DIRECTORS

New Share Option Scheme

The Company adopted a share option scheme (the "New SO Scheme") on 12 January 2012. The purpose of the New SO Scheme is to enable the Group to grant options to eligible participants as incentives or rewards for their contribution to the Group. Eligible participants of the New SO Scheme include, without limitation, any persons who are employees, officers, agents, consultants or representatives of the Group. The New SO Scheme became unconditional upon the Stock Exchange granting on 13 January 2012 the approval of the listing of and the permission to deal in the shares falling to be issued pursuant to the exercise of any options to be granted under the New SO Scheme and, unless otherwise cancelled or amended, shall remain in force for 10 years from the adoption date.

The maximum number of shares issuable under share options to each eligible participant in the New SO Scheme and the other scheme (if any) in any 12-month's period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options to any eligible participant in excess of this limit is subject to shareholders' approval in a general meeting. The total number of shares which may be issued upon exercise of all share options to be granted under the New SO Scheme and the other schemes (if any) must not in aggregate exceed 10% of the shares of the Company in issue (the "10% Limit") as at 12 January 2012, being the date of passing the resolution by the shareholders at the extraordinary general meeting approving and adopting the New SO Scheme. The Company may seek approval of its shareholders in a general meeting to refresh the 10% Limit at any time in accordance with the Listing Rules.

The maximum number of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the New SO Scheme and other schemes (if any) shall not exceed 30% of the share capital of the Company in issue from time to time. The making of an offer to any Director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who or whose associate is a proposed grantee of the share options).

In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the offer) in excess of HK$5,000,000, within any 12-month's period, are subject to the shareholders' approval in a general meeting in accordance with the Listing Rules.

Any offer may be accepted by an eligible participant in respect of less than the number of shares which are offered provided that such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such eligible participants and received by the Company together with a remittance in favour of the Company of HK$1.00 (which shall not be later than 21 days from the offer date). The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the offer date; and (iii) the nominal value of the Company's shares.

Further details of the New SO Scheme were disclosed in the circular of the Company dated 16 December 2011.

No options were granted under the New SO Scheme since its adoption.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 23 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

Under the Companies Law (2007 Revision) of the Cayman Islands, approximately HK$29,998,000 in the share premium account and approximately HK$19,444,000 in the reserve arising from capital reduction of the Company as at 31 December 2012, is distributable to the 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. The share premium account may also be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors
Mr. Choy Kwok Hung, Patrick *(Chairman)*
Mr. Chan Chi Hung *(Managing Director)*
Mr. Lin Wen Pin[1]

Non-executive Directors
Mr. Wang Qiang *(Deputy Chairman)*[2]
Mr. Yang Nai Jiang *(Deputy Chairman)*
Mr. John Yen Jong Ling[2]

Independent Non-executive Directors
Mr. Chung Koon Yan[3]
Mr. Yue Man Yiu, Matthew[4]
Mr. Chung Shu Kun, Christopher[4]
Mr. Chan Kam Man[5]
Ms. Kwok Yuen Lam, Sophia[5]
Ms. Mak Man Yi, Jackie[5]
Mr. William Keith Jacobsen[6]
Ms. Chan Man Yi[6]

Notes:

1. Mr. Lin Wen Pin resigned on 1 February 2012.
2. Mr. Wang Qiang and Mr. John Yen Jong Ling were appointed on 18 January 2013.
3. Mr. Chung Koon Yan resigned on 18 January 2013.
4. Mr. Yue Man Yiu, Matthew and Mr. Chung Shu Kun, Christopher resigned on 1 February 2013.
5. Mr. Chan Kam Man, Ms. Kwok Yuen Lam, Sophia and Ms. Mak Man Yi, Jackie were appointed on 30 May 2012. Ms. Mak resigned subsequently on 28 March 2013.
6. Mr. William Keith Jacobsen and Ms. Chan Man Yi were appointed on 1 February 2013.

Pursuant to Article 88(1) of the Articles, Mr. Chan Chi Hung will retire by rotation and, being eligible, offered himself for re-election at the 2013 AGM.

Pursuant to Article 87(3) of the Articles, Mr. Wang Qiang, Mr. John Yen Jong Ling, Mr. Chan Kam Man, Ms. Kwok Yuen Lam, Sophia, Mr. William Keith Jacobsen and Ms. Chan Man Yi are subject to re-election and, being eligible, have offered themselves for re-election at the 2013 AGM.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors of the Company, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considered that all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the 2013 AGM has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or its subsidiary was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2012, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, no persons, other than a Director or chief executive of the Company, who had the interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

CONNECTED TRANSACTION

During the year, the Company has paid/payable HK$840,000 as investment management fee to Wealth Assets Management Limited ("Wealth Assets"), the investment manager of the Company which is wholly-owned by Mr. Chan Chi Hung, an executive Director of the Company, for the provision by Wealth Assets of investment management services to the Company. The above transaction constitutes a de minimis continuing connected transaction which is exempted from reporting, annual review, announcement and independent shareholders' approval requirement under Rule 14A.33(3) of the Listing Rules.

Details of the above connected transaction is disclosed in note 27 to the financial statements.

PUBLIC FLOAT

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

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the CG Code of reviewing and providing super vision over the Group's financial reporting process and internal controls.

As at the date of this report, the Audit Committee comprises three independent non-executive Directors, Mr. Chan Kam Man (as chairman), Mr. William Keith Jacobsen and Ms. Chan Man Yi.

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2012.

AUDITOR

Due to a merger of the businesses of Grant Thornton ("GTHK"), now known as JBPB & Co. and BDO Limited ("BDO") to practice in the name of BDO, GTHK resigned on 30 November 2010, and BDO was appointed as auditor of the Company at the extraordinary general meeting of the Company held on 3 January 2011. Save as aforesaid, there was no change in auditor during the past three years. The financial statements for the years ended 31 December 2010, 2011 and 2012 were audited by BDO.

A resolution will be submitted to the 2013 AGM for the re-appointment of BDO as auditor of the Company.

On behalf of the Board
Choy Kwok Hung, Patrick
Chairman

Hong Kong, 28 March 2013

BDO

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To the shareholders of China Financial Leasing Group Limited
中國金融租賃集團有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Financial Leasing Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 35 to 81, which comprise the consolidated and company statements of financial position as at 31 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY *(Continued)*

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 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 state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants
Joanne Y. M. Hung
Practising Certificate no. P05419

Hong Kong, 28 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Revenue	6	**223**	58
Net loss on financial assets at fair value through profit or loss		**(6,055)**	(2,397)
		(5,832)	(2,339)
Administrative expenses		**(17,030)**	(9,831)
Loss before income tax	8	**(22,862)**	(12,170)
Income tax expense	9	**–**	–
Loss for the year and total comprehensive loss for the year attributable to the owners of the Company	10	**(22,862)**	(12,170)
		HK cents	HK cents
Loss per share for loss attributable to the owners of the Company during the year	11		
– Basic and diluted		**(6.28)**	(6.22)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**970**	380
Available-for-sale financial assets	16	**3,341**	3,341
		4,311	3,721
Current assets			
Financial assets at fair value through profit or loss	17	**39,367**	19,361
Other receivables, deposits and prepayments	18	**1,374**	1,784
Loan receivables	19	**–**	–
Cash and cash equivalents	20	**8,300**	11,487
		49,041	32,632
Current liabilities			
Other payables and accruals		**436**	328
Net current assets		**48,605**	32,304
Total assets less current liabilities/Net assets		**52,916**	36,025
EQUITY			
Equity attributable to the owners of the Company			
Share capital	21	**8,870**	9,856
Reserves	23	**44,046**	26,169
Total equity		**52,916**	36,025

Choy Kwok Hung, Patrick
Director

Chan Chi Hung
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**970**	380
Interests in subsidiaries	15	**1**	1
Available-for-sale financial assets	16	**3,341**	3,341
		4,312	3,722
Current assets			
Financial assets at fair value through profit or loss	17	**39,367**	19,361
Other receivables, deposits and prepayments	18	**1,372**	1,781
Cash and cash equivalents	20	**8,300**	11,487
		49,039	32,629
Current liabilities			
Other payables and accruals		**421**	314
Net current assets		**48,618**	32,315
Total assets less current liabilities/Net assets		**52,930**	36,037
EQUITY			
Share capital	21	**8,870**	9,856
Reserves	23	**44,060**	26,181
Total equity		**52,930**	36,037

Choy Kwok Hung, Patrick
Director

Chan Chi Hung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital HK$'000	Share premium HK$'000 (note 23(i))	Capital reduction reserve HK$'000 (note 21(vi))	Share options reserve HK$'000	Warrants reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	6,982	33,218	–	6,462	987	(30,746)	16,903
Issue of ordinary shares (note 21(v))	1,397	5,725	–	–	–	–	7,122
Share issue expenses	–	(178)	–	–	–	–	(178)
Share options exercised (note 22)	674	13,272	–	(6,462)	–	–	7,484
Warrants exercised (note 23(ii))	803	17,048	–	–	(987)	–	16,864
Transactions with owners	2,874	35,867	–	(6,462)	(987)	–	31,292
Loss for the year and total comprehensive loss for the year	–	–	–	–	–	(12,170)	(12,170)
At 31 December 2011 and 1 January 2012	**9,856**	**69,085**	**–**	**–**	**–**	**(42,916)**	**36,025**
Issue of ordinary shares (note 21(v))	**78,840**	**(37,551)**	**–**	**–**	**–**	**–**	**41,289**
Share issue expenses	**–**	**(1,536)**	**–**	**–**	**–**	**–**	**(1,536)**
Capital reduction (note 21(vi))	**(79,826)**	**–**	**19,444**	**–**	**–**	**60,382**	**–**
Transactions with owners	**(986)**	**(39,087)**	**19,444**	**–**	**–**	**60,382**	**39,753**
Loss for the year and total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(22,862)**	**(22,862)**
At 31 December 2012	**8,870**	**29,998**	**19,444**	**–**	**–**	**(5,396)**	**52,916**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Cash flows from operating activities		
Loss before income tax	**(22,862)**	(12,170)
Adjustments for:		
Depreciation	**254**	244
Bank interest income	**(1)**	(1)
Dividend income	**(222)**	(57)
Loss on disposal of property, plant and equipment	**31**	–
Operating loss before working capital changes	**(22,800)**	(11,984)
Increase in financial assets at fair value through profit or loss	**(20,006)**	(12,428)
Decrease/(Increase) in other receivables, deposits and prepayments	**410**	(1,040)
Increase/(Decrease) in other payables and accruals	**108**	(269)
Cash used in operations	**(42,288)**	(25,721)
Bank interest received	**1**	1
Dividend income received	**222**	57
Net cash used in operating activities	**(42,065)**	(25,663)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(1,078)**	(100)
Proceeds from disposal of property, plant and equipment	**203**	–
Acquisition of available-for-sale financial assets	**–**	(3,341)
Net cash used in investing activities	**(875)**	(3,441)
Cash flows from financing activities		
Proceeds from share options exercised	**–**	7,484
Proceeds from warrants exercised	**–**	16,864
Proceeds from issue of shares	**41,289**	7,122
Share issue expenses	**(1,536)**	(178)
Net cash generated from financing activities	**39,753**	31,292
Net (decrease)/increase in cash and cash equivalents	**(3,187)**	2,188
Cash and cash equivalents at 1 January	**11,487**	9,299
Cash and cash equivalents at 31 December	**8,300**	11,487

1. GENERAL INFORMATION

China Financial Leasing Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2007 Revision) of the Cayman Islands. The address of its registered office and principal place of business are located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Unit A-C, 3/F, Golden Sun Centre, 59-67 Bonham Strand West, Sheung Wan, Hong Kong respectively. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in short to medium term capital appreciation by investing in a diversified portfolio of investments in listed and unlisted securities in Hong Kong and overseas on a general perspective.

The financial statements for the year ended 31 December 2012 were approved for issue by the board of directors on 28 March 2013.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2012

Amendments to HKFRS 1	First-time adoption of HKFRSs – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The adoption of these new/revised standards and interpretations has no material impact on the Group's financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, 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.

Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

HKFRS 10	Consolidated Financial Statements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 19 (2011)	Employee Benefits[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities[3]
Annual improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

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

HKFRS 9 – Financial Instruments

Under HKFRS 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 a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 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, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implantation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 13 – Fair Value Measurement

HKFRS 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 HKFRS 7 "Financial Instruments: Disclosures". HKFRS 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. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors are not yet in a position to quantify the effects on the Group's financial statements.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The financial statements on pages 35 to 81 have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of 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 of Hong Kong Limited (the "Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the financial statements, if any, are disclosed in note 2.

3.2 Basis of measurement

The financial statements have been prepared under the historical cost basis except for certain financial instruments, which are stated at fair value as explained in the accounting policies set out below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

3.3 Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (see 4.2 below) made up to 31 December each year.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group assets sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

4.2 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In consolidated financial statements, acquisition of subsidiaries (other than those under common control) is accounted for by applying the acquisition method. This involves the estimation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.3 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the reporting date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

4.4 Revenue recognition

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

(i) interest income is recognised on a time-proportion basis using the effective interest method; and

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

4.5 Property, plant and equipment

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.5 Property, plant and equipment *(Continued)*

Depreciation on property, plant and equipment is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Motor vehicles	4 years
Furniture and office equipment	4 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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 cost, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

4.6 Impairment of non-financial assets

Property, plant and equipment, prepayments and interests in subsidiaries are subject to impairment testing.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.7 Leases

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

Operating lease charges as the lessee

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

4.8 Financial assets

The Group's accounting policies for financial assets other than interests in subsidiaries are set out below.

The Group's financial assets include available-for-sale financial assets, financial assets at fair value through profit or loss, loan receivables, cash and cash equivalents. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

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

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's accounting policies in note 4.4 to these financial statements.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(iii) Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulties of the debtor;

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

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

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

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost (Continued)

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the profit or loss. The subsequent increase in fair value is recognised directly in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in the profit or loss.

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 is not reversed.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.9 Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.9 Accounting for income taxes *(Continued)*

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

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

4.10 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, demand deposits and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.11 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issue of shares are deducted from share premium (net of any related income tax benefits) to the extent that they are incremental costs directly attributable to the equity transaction.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Retirement benefit costs and short term employee benefits

(i) Defined contribution plan

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

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(ii) Short term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

4.13 Employee share-based compensation

The Group operates an equity-settled, share-based compensation plan.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.13 Employee share-based compensation *(Continued)*

All share-based compensation is ultimately recognised as an expense in profit or loss with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

4.14 Financial liabilities

The Group's financial liabilities include other payables and accruals.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in profit or loss.

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

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

Financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

4.15 Warrants

Warrants issued by the Company are recorded at the proceeds received, net of direct issue costs. At the time when the warrants are exercised, the amount previously recognised in warrant reserve will be transferred to share premium.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.16 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

4.17 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major operations.

The Group has identified one reportable segment:

– investment in listed and unlisted securities with revenue of dividend income received for the securities;

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements.

Corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment, which primarily applies to the Group's headquarter.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.18 Related parties

For the purposes of these financial statements, 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.

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

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of the employees of 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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Unlisted equity instruments

HKAS 39 precludes the Group from measuring equity instruments at fair value, if the fair value of investment in equity instruments that do not have a quoted market price in an active market is not reliably measurable. In making this judgment, the Group considers the following information:

– the variability in the range of reasonable fair value estimates is significant for that instrument; or

– the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

(ii) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers/borrowers and current market conditions. Management reassesses the impairment of receivables at each reporting date.

(iii) Depreciation on property, plant and equipment

The Group depreciates its property, plant and equipment on a straight-line method over their estimated useful lives of four years, i.e. 25% per annum. The estimated useful lives reflect the directors' estimate of the period that the Group will derive future economic benefits from the use of the Group's property, plant and equipment.

6. REVENUE

Revenue, which is also the Group's turnover, recognised during the year is as follows:

	2012	2011
	HK$'000	HK$'000
Bank interest income	**1**	1
Dividend income	**222**	57
	223	58

The results arising from the fair value change of financial assets at fair value through profit or loss are shown separately in the consolidated statement of comprehensive income under the line of "Net loss on financial assets at fair value through profit or loss". The gross proceeds from trading of securities for the year amounted to approximately HK$49,804,000 (2011: HK$39,239,000).

7. SEGMENT INFORMATION

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance.

For the year ended 31 December 2011, there were two business components/reportable segments in the internal reporting to the executive directors, which were investment in listed and unlisted securities and provision of loan financing. The provision of loan financing segment was dormant and no segment information was presented.

For the year ended 31 December 2012, the Group has identified only one segment and the sole business of this segment is investment in listed and unlisted securities. No separate analysis of segment information by business segment is presented.

The Group's revenue from external customers and its non-current assets by geographical areas are not presented as the geographical segments other than Hong Kong are less than 10% of the aggregate amount of all segments.

8. LOSS BEFORE INCOME TAX

	2012 HK$'000	2011 HK$'000
Loss before income tax is arrived at after charging:		
Auditor's remuneration	**250**	230
Depreciation	**254**	244
Employee benefit expenses (note 12)	**6,900**	4,056
Exchange loss, net	**7**	1
Operating lease charges in respect of land and buildings	**3,281**	1,468
Loss on disposal of property, plant and equipment	**31**	–

9. INCOME TAX EXPENSE

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands ("BVI") during the year (2011: Nil).

No Hong Kong profits tax has been provided as the Group did not generate any assessable profit for the year (2011: Nil).

Reconciliation between income tax expense and accounting loss at applicable tax rates:

	2012 HK$'000	2011 HK$'000
Loss before income tax	**(22,862)**	(12,170)
Tax on loss before income tax, calculated at applicable rate of 16.5% (2011: 16.5%)	**(3,772)**	(2,008)
Tax effect of non-taxable income	**(37)**	(10)
Tax effect of non-deductible expenses	**13**	119
Tax effect on tax losses not recognised	**3,796**	1,899
Income tax expense	**–**	–

At 31 December 2012, the Group has unused tax losses of HK$101,701,000 (2011: HK$78,693,000) available for offsetting against future taxable profits of the companies which incurred the losses. Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of future profit streams. Under the current tax legislation, the tax losses can be carried forward indefinitely.

Saved as disclosed above, the Group and the Company did not have any significant deferred tax assets and liabilities as at 31 December 2012 (2011: Nil).

10. LOSS FOR THE YEAR

Of the consolidated loss for the year attributable to the owners of the Company of approximately HK$22,862,000 (2011: HK$12,170,000), a loss of approximately HK$22,860,000 (2011: HK$12,170,000) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to the owners of the Company of approximately HK$22,862,000 (2011: HK$12,170,000) and on the weighted average number of 364,183,854 ordinary shares, as adjusted to reflect the bonus issue and share consolidation during the year (2011: 195,554,179 ordinary shares as adjusted to reflect the bonus issue and share consolidation after the reporting date but before the approval of these financial statements).

The diluted loss per share attributable to the owners of the Company for the year ended 31 December 2012 was the same as the basic loss per share because the potential shares arising from the exercise of the Company's warrants and share options would decrease the loss per share attributable to the owners of the Company and was not taken into account as they had an anti-dilutive effect (2011: anti-dilutive).

12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' REMUNERATION)

	2012 **HK$'000**	2011 HK$'000
Salaries and other allowances (including directors' fee)	**6,763**	3,949
Pension costs – defined contribution plans	**137**	107
	6,900	4,056

13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) Directors' remuneration

The remuneration paid or payable to the directors were as follows:

	Date of appointment /resignation during the year	Fees	Salaries, allowances and benefits in kind	Pension costs – defined contribution plans	Total
		HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2012					
Executive directors					
Chan Chi Hung		300	233	14	547
Choy Kwok Hung, Patrick		360	–	–	360
Lin Wen Pin	Appointed on 31 August 2011 and resigned on 1 February 2012	50	–	–	50
Non-executive directors					
Yang Nai Jiang	Appointed on 31 August 2011	275	206	–	481
Independent non-executive directors					
Chung Koon Yan		150	–	–	150
Yue Man Yiu, Matthew		150	–	–	150
Chung Shu Kun, Christopher		120	–	–	120
Chan Kam Man	Appointed on 30 May 2012	141	–	–	141
Kwok Yuen Lam Sophia	Appointed on 30 May 2012	141	–	–	141
Mak Man Yi Jackie	Appointed on 30 May 2012	71	–	–	71
		1,758	439	14	2,211

Mr. Chung Koon Yan was resigned on 18 January 2013. Mr. Chung Shu Kun, Christopher and Mr. Yue Man Yiu, Matthew were resigned on 1 February 2013.

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

(i) Directors' remuneration *(Continued)*

	Date of appointment /resignation during the year	Fees	Salaries, allowances and benefits in kind	Pension costs – defined contribution plans	Total
		HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2011					
Executive directors					
Chan Chi Hung		300	195	12	507
Choy Kwok Hung, Patrick		360	–	–	360
Lin Wen Pin	Appointed on 31 August 2011 and resigned on 1 February 2012	200	–	–	200
Non-executive directors					
Yang Nai Jiang	Appointed on 31 August 2011	–	–	–	–
Independent non-executive directors					
Chung Koon Yan		120	–	–	120
Yue Man Yiu, Matthew		120	–	–	120
Chung Shu Kun, Christopher		120	–	–	120
Shi Rong Chang	Appointed on 31 August 2011 and resigned on 22 December 2011	–	–	–	–
Li Xiao Chen	Appointed on 16 September 2011 and resigned on 22 December 2011	–	–	–	–
		1,220	195	12	1,427

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

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

(ii) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2011: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2011: three) highest paid individuals during the year are as follows:

	2012 **HK$'000**	2011 HK$'000
Salaries and other allowances	**1,958**	1,139
Pension costs – defined contribution plans	**28**	35
	1,986	1,174

The emoluments of non-director individuals fell within the following bands:

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

During the year, no emoluments were paid by the Group to the Company's directors or any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2011: Nil).

(iii) Senior management's emoluments

The emoluments paid or payable to ten (2011: six) members of senior management whose emoluments fell within the band of Nil to HK$1,000,000 during the year.

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For the year ended 31 December 2012

14. PROPERTY, PLANT AND EQUIPMENT

Group and Company

	Motor vehicles HK$'000	**Furniture and office equipment** HK$'000	**Total** HK$'000
At 1 January 2011			
Cost	542	404	946
Accumulated depreciation	(272)	(150)	(422)
Net book amount	270	254	524
Year ended 31 December 2011			
Opening net book amount	270	254	524
Additions	–	100	100
Depreciation	(135)	(109)	(244)
Closing net book amount	135	245	380
At 31 December 2011 and 1 January 2012			
Cost	542	504	1,046
Accumulated depreciation	(407)	(259)	(666)
Net book amount	135	245	380
Year ended 31 December 2012			
Opening net book amount	**135**	**245**	**380**
Additions	**983**	**95**	**1,078**
Disposals	**(234)**	**–**	**(234)**
Depreciation	**(146)**	**(108)**	**(254)**
Closing net book amount	**738**	**232**	**970**
At 31 December 2012			
Cost	**1,197**	**599**	**1,796**
Accumulated depreciation	**(459)**	**(367)**	**(826)**
Net book amount	**738**	**232**	**970**

15. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

Company

	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	2,706	2,682
Less: Impairment losses recognised	(2,706)	(2,682)
	–	–

The movement in the impairment losses recognised for amounts due from subsidiaries is as follows:

	2012 HK$'000	2011 HK$'000
Balance at 1 January	2,682	2,668
Impairment losses recognised	24	14
Balance at 31 December	2,706	2,682

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

The directors consider that the carrying amounts of the amounts due from subsidiaries approximate their fair values at the reporting dates because these amounts have short maturity periods on their inception, such that the time value of money impact is not significant.

Particulars of the subsidiaries at 31 December 2012 are as follows:

Name of subsidiaries	Place of incorporation/kind of legal entity	Particulars of issued and fully paid share capital	Percentage of issued capital held by the Company directly	Principal activities and place of operation
China Financial Leasing Group (B.V.I.) Limited	BVI, limited liability company	1 ordinary share of US$1	100%	Dormant, the People's Republic of China ("PRC")
China Financial Leasing Group (Hong Kong) Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	100%	Dormant, Hong Kong

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Group and Company

	2012 **HK$'000**	2011 HK$'000
Equity securities, at cost		
Unlisted in the PRC	**3,341**	3,341

Particulars of the unlisted available-for-sale equity securities at 31 December 2012 are as follows:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
Beijing LED Lighting Engineering Company Limited ("BJLED")	PRC	Wholesale of high technology electronic products	RMB2,760,000	12% (2011: 12%)

BJLED is a PRC company, in which Mr. Choy Kwok Hung, Patrick, an executive director of the Company, has equity interest in it.

The unlisted available-for-sale equity securities are measured at cost less impairment at each reporting date because there was no open market on the unlisted investment and the management has no intention to dispose such investment at the reporting date. Accordingly, the directors of the Company are of the opinion that fair value cannot be reliably measured.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group and Company

	2012 **HK$'000**	2011 HK$'000
Equity securities held for trading, at fair value		
Listed in Hong Kong	**39,367**	19,361

Fair values of these investments have been determined by reference to their quoted bid prices at the reporting date. Financial assets at fair value through profit or loss are presented within the section on operating activities as a part of changes in working capital in the consolidated statement of cash flows.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Changes in fair values of financial assets at fair value through profit or loss are recorded as net loss on financial assets at fair value through profit or loss in the consolidated statement of comprehensive income.

As at 31 December 2012, the carrying amounts of the listed equity securities of the following companies exceed 10% of total assets of the Group and the Company.

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
Active Group Holdings Limited	Cayman Islands	Manufacturing and sales of casual footwear, apparel and related accessories in the PRC	10,500,000 ordinary shares (2011: Nil)	0.9% (2011: Nil)
Newtree Group Holdings Limited	Cayman Islands	Hygienic Disposables Business, MTBE Business and Household Consumables Business	5,000,000 ordinary shares (2011: Nil)	0.8% (2011: Nil)
Tech Pro Technology Development Limited	Cayman Islands	Manufacture and sale of aluminum electrolytic capacitors, chip type electronic components and LED lightings	3,000,000 ordinary shares (2011: Nil)	0.3% (2011: Nil)
Ming Kei Holdings Limited	Bermuda	Property investment in Hong Kong and the PRC, business of general trading in the PRC and business of coal trading between the PRC and Indonesia	16,908,000 ordinary shares (2011: 10,000,000 ordinary shares)	3.4% (2011: 5.9%)

18. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Deposits	**863**	1,090	**863**	1,090
Prepayments	**511**	694	**509**	691
	1,374	1,784	**1,372**	1,781

The directors consider that the carrying amounts of other receivables and deposits approximate their fair values at the reporting dates because these amounts have short maturity periods on their inception, such that the time value of money impact is not significant.

19. LOAN RECEIVABLES

Group

The analysis of the Group's loan receivables is as follows:

	Group	
	2012 **HK$'000**	2011 HK$'000
Loan receivables	**–**	(3,177)
Less: Impairment losses recognised	**–**	(3,177)
	–	–

The movement in the impairment loss recognised for loan receivables is as follows:

	Group	
	2012 **HK$'000**	2011 HK$'000
Balance at 1 January	**3,177**	3,177
Amounts written off	**(3,177)**	–
Balance at 31 December	**–**	3,177

At 31 December 2011, loan receivables were determined to be impaired on the basis of default in interest and principal payments of the counterparty which indicated that the Group's receivables might not be fully recovered. The balances were fully written off as uncollectible during the year.

20. CASH AND CASH EQUIVALENTS

Group and Company

	2012 **HK$'000**	2011 HK$'000
Cash at banks and in hand	**3,260**	11,042
Demand deposits	**5,040**	445
	8,300	11,487

Cash and cash equivalents comprise cash at banks and in hand and demand deposit with original maturity of three months or less. The carrying amounts of the cash and cash equivalents approximate their fair values.

The demand deposits carried an effective interest rate of 0.03% (2011: 0.04%) per annum as at 31 December 2012.

21. SHARE CAPITAL

	Notes	Number of ordinary shares of HK$0.01 each	Number of ordinary shares of HK$0.2 each	Number of ordinary shares of HK$0.02 each	HK$'000
Authorised:					
At 1 January 2011, 31 December 2011 and 1 January 2012		30,000,000,000	–	–	300,000
Share consolidation		**(30,000,000,000)**	**1,500,000,000**	**–**	**–**
Capital reduction and sub-division		**–**	**(1,500,000,000)**	**15,000,000,000**	**–**
At 31 December 2012		**–**	**–**	**15,000,000,000**	**300,000**
Issued and fully paid:					
At 1 January 2011		698,203,500	–	–	6,982
Issue of ordinary shares on placing	(i)	139,635,000	–	–	1,397
Share options exercised	22	67,425,000	–	–	674
Warrants exercised	23(ii)	80,309,520	–	–	803
At 31 December 2011 and 1 January 2012		985,573,020	–	–	9,856
Issue of bonus shares	(ii)	**3,942,292,080**	**–**	**–**	**39,423**
Share consolidation	(iii)	**(4,927,865,100)**	**246,393,255**	**–**	**–**
Issue of ordinary shares on placing	(iv)	**–**	**49,260,000**	**–**	**9,852**
Issue of ordinary shares on open offer	(v)	**–**	**147,826,627**	**–**	**29,565**
Capital reduction and sub-division	(vi)	**–**	**(443,479,882)**	**443,479,882**	**(79,826)**
At 31 December 2012		**–**	**–**	**443,479,882**	**8,870**

Notes:

(i) On 1 September 2011, 139,635,000 shares of HK$0.01 each were issued at a price of HK$0.051 per share pursuant to a placing agreement on 1 September 2011 as detailed in an announcement dated 1 September 2011.

(ii) Pursuant to the ordinary resolution of the extraordinary general meeting passed on 21 December 2011, a bonus issue was approved to issue on the basis of four bonus shares for every then existing share held by the qualifying shareholders on 4 January 2012. The bonus issue was completed on 10 January 2012 and 3,942,292,080 ordinary shares of HK$0.01 each were issued.

21. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

(iii) Pursuant to the announcement made by the Company on 20 January 2012, the directors of the Company proposed to effect the share consolidation pursuant to which every twenty issued and unissued shares of HK$0.01 each in the share capital of the Company will be consolidated into one consolidated share of HK$0.2 each (the "Share Consolidation"). The Share Consolidation is approved on 17 February 2012 and completed on 20 February 2012. Details of which were disclosed in the circular of the Company dated 2 February 2012.

(iv) On 2 March 2012, 49,260,000 shares of HK$0.2 each were issued at a price of HK$0.238 per share pursuant to a placing agreement dated 23 February 2012 as detailed in the announcements dated 23 February 2012, 27 February 2012 and 2 March 2012.

(v) On 25 June 2012, 147,826,627 shares of HK$0.2 each were issued pursuant to the open offer at a price of HK$0.2 per share on the basis of one share for every two then existing shares held by the qualifying shareholders on 31 May 2012 as detailed in a circular dated 1 June 2012.

(vi) Pursuant to a special resolution passed by the shareholders of the Company at an extraordinary general meeting held on 8 August 2012, the issued share capital of the Company was proposed to be reduced by reducing the par value of each of the issued shares of the Company from HK$0.20 to HK$0.02 by cancelling the paid-up capital to the extent of HK$0.18 per issued share (the "Capital Reduction"). Part of the credit arising from such reduction would be applied towards cancelling the accumulated loss of the Company, while the balance (if any) would be transferred to the capital reduction reserve account of the Company which may be utilised by the directors as a distributable reserve in accordance with the articles of association of the Company (the "Articles") and all applicable laws. Immediately following the Capital Reduction becomes effective, each authorised but unissued share will also be sub-divided into 10 new shares with a par value of HK$0.02 each. On 7 December 2012, the Grant Court of the Cayman Islands granted an order to confirm the capital reduction of the Company and the Capital Reduction became effective on 10 December 2012. Details of which were disclosed in the circular of the Company dated 16 July 2012.

22. SHARE-BASED EMPLOYEE COMPENSATION

The Company conditionally adopted a share option scheme (the "Old SO Scheme") on 7 October 2002 (the "Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Old SO Scheme include any persons being employees, officers, agents, consultants or representatives of the Group. The Old SO Scheme became unconditional on 28 October 2002 upon the listing of the Company's shares on the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from the Adoption Date. The Old SO Scheme was terminated pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 12 January 2012.

22. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

The Company adopted a share option scheme (the "New SO Scheme") on 12 January 2012. The purpose of the New SO Scheme is to enable the Group to grant options to eligible participants as incentives or rewards for their contribution to the Group. Eligible participants of the New SO Scheme include, but not limited by any persons being employees, officers, agents, consultants or representatives of the Group. The New SO Scheme became unconditional upon the Stock Exchange granted on 13 January 2012 the approval of the listing of and permission to deal in the shares falling to be issued pursuant to the exercise of any options to be granted under the New SO Scheme and, unless otherwise cancelled or amended, shall remain in force for 10 years from the adoption date.

The maximum number of shares issuable under share options to each eligible participant in the New SO Scheme and the other scheme (if any) in any 12-month's period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options to any eligible participant in excess of this limit is subject to shareholders' approval in a general meeting. The total number of shares which may be issued upon exercise of all share options to be granted under the New SO Scheme and the other schemes (if any) must not in aggregate exceed 10% of the shares of the Company in issue (the "10% Limit") as at 12 January 2012, being the date of passing the resolution by the shareholders at the extraordinary general meeting approving and adopting the New SO Scheme. The Company may seek approval of its shareholders in a general meeting to refresh the 10% Limit at any time in accordance with the Listing Rules.

The maximum number of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the New SO Scheme and the other schemes (if any) shall not exceed of 30% of the share capital of the Company in issue from time to time. In making of an offer to any director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the independent non-executive directors (excluding any independent nonexecutive director who or whose associate is a proposed grantee of the share options).

In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the offer) in excess of HK$5 million, within any 12-month's period, are subject to the shareholders' approval in a general meeting in accordance with the Listing Rules.

22. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Any offer may be accepted by an eligible participant in respect of less than the number of shares which are offered provided that such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such eligible participants and received by the Company together with a remittance in favour of the Company of HK$1.00 (which shall not be later than 21 days from the offer date). The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the offer date; and (iii) the nominal value of the Company's shares.

Further details of the New SO Scheme were disclosed in the circular of the Company dated 16 December 2011.

No option was granted under the New SO Scheme since its adoption.

Details of the share options granted by the Company pursuant to the Old SO Scheme and the share options outstanding as at 31 December 2011 were as follows:

			Number of Options					
	Date of grant	Exercisable period	Balance at 1 January 2011	Granted During the year	Exercise during the year	Lapsed during the year	Balance at 31 December 2011	Exercise price per share HK$
Executive Directors								
Mr. Choy Kwok Hung, Patrick	14 December 2010	15 December 2010 to 14 December 2020	6,975,000	–	6,975,000	–	–	0.111
Mr. Chan Chi Hung	14 December 2010	15 December 2010 to 14 December 2020	6,975,000	–	6,975,000	–	–	0.111
Employees of the Group	14 December 2010	15 December 2010 to 14 December 2020	53,475,000	–	53,475,000	–	–	0.111
			67,425,000	–	67,425,000	–	–	

On 9 September 2011, 67,425,000 options were exercised at the exercise price of HK$0.111 per share pursuant to the Old SO Scheme. The weighted average share price for share options exercised during the year at the date of exercise was HK$0.12.

23. RESERVES

Group

	Notes	2012 HK$'000	2011 HK$'000
Share premium	(i)	**29,998**	69,085
Capital reduction reserve		**19,444**	–
Share options reserve		**–**	–
Warrants reserve	(ii)	**–**	–
Accumulated losses		**(5,396)**	(42,916)
		44,046	26,169

The movement of the Group's reserves for the years are presented in the consolidated statement of changes in equity.

Company

	Share premium HK$'000 (note (i))	Capital reduction reserve HK$'000 (note 21(vi))	Share options reserve HK$'000	Warrants reserve HK$'000 (note (ii))	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	33,218	–	6,462	987	(30,734)	9,933
Issue of ordinary shares (note 21(i))	5,725	–	–	–	–	5,725
Share issue expenses	(178)	–	–	–	–	(178)
Share options exercised (note 22)	13,272	–	(6,462)	–	–	6,810
Warrants exercised (note (ii))	17,048	–	–	(987)	–	16,061
Transactions with owners	35,867	–	(6,462)	(987)	–	28,418
Loss for the year and total comprehensive loss for the year	–	–	–	–	(12,170)	(12,170)
At 31 December 2011 and 1 January 2012	69,085	–	–	–	(42,904)	26,181
Issue of ordinary shares (note 21(iv) and (v))	**(37,551)**	**–**	**–**	**–**	**–**	**(37,551)**
Share issue expenses	**(1,536)**	**–**	**–**	**–**	**–**	**(1,536)**
Capital reduction (note 21(vi))	**–**	**19,444**	**–**	**–**	**60,382**	**79,826**
Transactions with owners	**(39,087)**	**19,444**	**–**	**–**	**60,382**	**40,739**
Loss for the year and total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(22,860)**	**(22,860)**
At 31 December 2012	**29,998**	**19,444**	**–**	**–**	**(5,382)**	**44,060**

23. RESERVES *(Continued)*

Notes:

(i) In accordance with the Companies Law (2007 Revision) of the Cayman Islands, the share premium 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. The share premium may also be distributed in the form of fully paid bonus shares.

(ii) On 24 October 2008, the Company entered into six subscription agreements with six independent investors, namely Chan Ka Ling, Tang Man Lai, Ho Chuek Kan, Chong Wai Moon, Chong Wai Tim and Yeung Wai Chun for the issue of warrants. The Company issued 337,300,000 non-listed warrants at the issue price of HK$0.003 per warrant. The warrants will mature in 36-month period from the date of issue. Each warrant entitles the holder thereof to subscribe for one new share at exercise price of HK$0.05 per new share, payable in cash and subject to adjustment. Consideration of HK$987,000, net of issuance expenses of approximately HK$25,000, was received in respect of warrants. After the share consolidation being effective on 19 December 2008, the exercise price per new share was adjusted from HK$0.05 to HK$0.25 and the number of warrants was adjusted from 337,300,000 to 67,460,000. Each warrant of the Company shall confer right to subscribe for 1 consolidated share of HK$0.25. After the capital reduction and share sub-division effective on 31 March 2009, by cancelling the paid-up capital to the extent of HK$0.24 on each share in issue, each warrants of the Company shall confer right to subscribe for 1 consolidated share of HK$0.01 effective on 31 March 2009, but the exercise price per share and the number of warrants in issue remained unchanged.

Pursuant to the terms and conditions of the warrant agreements, the exercise price per new share of the warrants has been adjusted from HK$0.25 to HK$0.21 and the number of warrants has been adjusted from 67,460,000 to 80,309,524 with effect from 1 May 2010 as a result of the open offer.

The reason for the issues was to raise additional funds for the Group to invest in suitable investment opportunities.

On 19 October 2011, 80,309,520 warrants were exercised at the exercise price of HK$0.21 per share and resulted in the issue of 80,309,520 shares of HK$0.01 each.

24. OPERATING LEASE COMMITMENTS

Group and Company

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable by the Group/Company as follows:

	2012	2011
	HK$'000	HK$'000
Within one year	**707**	4,725
In the second to fifth years inclusive	**385**	3,067
	1,092	7,792

The Group/Company leases certain of its office properties under operating leases. The leases run for an initial period of one to two years, with options to renew the lease terms at the expiry dates or at dates as mutually agreed between the Group/Company and the respective landlords/lessors. None of the leases include contingent rentals.

During the year, one of the leases with an original lease period of two years was early terminated.

25. OTHER COMMITMENTS

As at 31 December 2011 and 2012, the Group and the Company have no significant commitments.

26. CONTINGENT LIABILITIES

As at 31 December 2011 and 2012, the Group and the Company have no significant contingent liabilities.

27. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties:

	2012	2011
	HK$'000	HK$'000
Investment management fee paid/payable to Wealth Assets Management Limited	**840**	705

27. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

Pursuant to the investment management agreement dated 7 October 2002 (the "Investment Management Agreement") entered into between the Company and Wealth Assets Management Limited (the "Investment Manager"), the Investment Manager has agreed to provide the Company with investment management services (excluding general administrative services) for a three-year period commencing on 28 October 2002, the date of the commencement of the trading of the Company's shares on the Stock Exchange. The Investment Management Agreement will continue for successive periods of three years, unless terminated at any time by either the Company or the Investment Manager serving not less than six month's notice in writing to the other party, and will expire on the last day of the three-year period or any of the relevant successive periods.

With effect from 1 January 2012, the monthly management fee had been changed from HK$55,000 to HK$70,000 per month. The management fee to the Investment Manager is a de minimis transaction under Rule 14A.33(3)(b) of the Listing Rules which is exempt from the reporting, announcement and independent shareholders' approval requirement.

Mr. Chan Chi Hung, an executive director of the Company, has equity interests in the Investment Manager and is one of the directors of the Investment Manager.

(b) Included in employee benefit expenses and directors' remuneration are key management personnel compensation and comprises the following categories:

	Group	
	2012	2011
	HK$'000	HK$'000
Short term employee benefits	**3,815**	2,159
Contributions to defined contribution plans	**58**	48
	3,873	2,207

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including currency risk, price risk and interest risk), credit risk and liquidity risk.

The Group's overall risk management focuses on unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not have any written risk management policies and guidelines. However, the board of directors meets periodically and cooperates closely with key management to analyse and formulate strategies to manage and monitor financial risk. The Group has not used any derivatives or other instruments for hedging purpose. The most significant financial risks to which the Group is exposed to are described below.

(i) Categories of financial assets and liabilities

The carrying amounts presented in the consolidated and company statements of financial position related to the following categories of financial assets and financial liabilities:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
At cost less impairment				
Available-for-sale financial assets	**3,341**	3,341	**3,341**	3,341
At fair value				
Financial assets at fair value through profit or loss	**39,367**	19,361	**39,367**	19,361
Loans and receivables				
Loan receivables	**–**	–	**–**	–
Cash and cash equivalents	**8,300**	11,487	**8,300**	11,487
	51,008	34,189	**51,008**	34,189
Financial liabilities				
At amortised cost				
Other payables and accruals	**436**	328	**421**	314

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(ii) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group did not have significant exposures to currency risk.

All the financial assets and liabilities of the Group and the Company are denominated in HK$ except the available-for-sale financial assets are denominated in RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(iii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group has no borrowing which bears fixed or floating interest rates. The Group's exposure to market risk for changes in interest rates relates primarily to cash and cash equivalents. The Group currently does not have any interest rate hedging policy. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

The directors are of the opinion that the Group's sensitivity to the change in interest rate is low.

(iv) Price risk

Equity price risk relates to the risk that the fair values of equity securities will fluctuate because of changes in the levels of equity indices and the values of individual securities. The Group and the Company are mainly exposed to equity price risk arising from the investments in listed equity securities classified as financial assets at fair value through profit or loss as at 31 December 2011 and 2012 as mentioned in note 17 which are valued at quoted market prices at the reporting dates. The Group's and the Company's investments in listed equity securities are mainly publicly traded in the Stock Exchange.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(iv) Price risk *(Continued)*

Equity price sensitivity analysis

For the equity securities listed on the Stock Exchange, an average volatility of 2.65% (2011: 6.74%) has been observed in the Heng Seng Index during 2012.

The table below summaries the impact of increase/decrease of the Heng Seng Index on the Group's and the Company's net loss for the year and accumulated losses. The analysis is based on the assumption that the Heng Seng Index had increased/decreased by 10% (2011: 10%) with all other variables held constant and all the Group's and the Company's listed equity securities moved according to the historical correlation with the Hang Seng Index:

	2012	**2012**	2011	2011
	+10%	**–10%**	+10%	–10%
	HK$'000	**HK$'000**	HK$'000	HK$'000
Net loss for the year and accumulated losses	**(3,937)**	**3,937**	(1,936)	1,936

(v) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

The carrying amounts of these financial assets presented in the consolidated and company statements of financial position are net of impairment losses, if any. The Group minimises its exposure to the credit risk by rigorously selecting the counterparties and performing ongoing credit evaluation on the financial conditions. Follow-up actions are taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

The credit risk on cash and cash equivalents is limited because the counterparties are mainly banks with high credit-ratings assigned by international credit-rating agencies.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(v) Credit risk *(Continued)*

The credit and investment policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

(vi) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities.

The Group's policy is to regularly monitor its liquidity requirements to ensure that the Group maintains sufficient reserves of cash to meet its liquidity requirements in the financial liabilities. Cash flows are closely monitored on an ongoing basis.

The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risks.

All the Group's and the Company's financial liabilities will be settled within 12 months from the reporting date. As at 31 December 2011 and 2012, the Group has no borrowings. Based on the assessment of the directors, liquidity risk encountered by the Group and the Company is minimal.

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

The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived form prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

As at 31 December 2012, financial assets at fair value through profit or loss measured at fair value in the consolidated and company statements of financial position are in accordance with level one of the fair value hierarchy (2011: level one).

29. CAPITAL MANAGEMENT – GROUP

The Group's objectives when managing capital are:

(i) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(ii) To support the Group's stability and growth; and

(iii) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

The Group also balances its overall capital structure periodically. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group will also consider the raise of long-term borrowings as second resource of capital when investment opportunities arise and the return of such investments will justify the cost of debts from the borrowings.

The Group regards total equity as capital, for capital management purpose. The amount of capital as at 31 December 2012 amounted to approximately HK$52,916,000 (2011: HK$36,025,000), in which the Group considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

The Group also endeavours to ensure the steady and reliable cash flow from the normal business operation. For both years ended 31 December 2011 and 2012, the Group did not raise any debts.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for last five financial years, as extracted from the audited financial statements, is set out below. The summary dose not form part of the audited financial statements.

RESULTS

	Year ended 31 December 2012 HK$'000	Year ended 31 December 2011 HK$'000	Year ended 31 December 2010 HK$'000	Year ended 31 December 2009 HK$'000	Year ended 31 December 2008 HK$'000
Revenue	**223**	58	180	186	674
Loss before income tax	**(22,862)**	(12,170)	(18,037)	(8,324)	(54,209)
Income tax expense	**–**	–	–	–	–
Loss attributable to the owners of the Company	**(22,862)**	(12,170)	(18,037)	(8,324)	(54,209)

ASSETS AND LIABILITIES

	At 31 December 2012 HK$'000	At 31 December 2011 HK$'000	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000	At 31 December 2008 HK$'000
Total assets	**53,352**	36,353	17,500	45,623	12,945
Total liabilities	**(436)**	(328)	(597)	(42,489)	(1,487)
Net assets	**52,916**	36,025	16,903	3,134	11,458

BOARD OF DIRECTORS

Executive Directors

CHOY Kwok Hung, Patrick *(Chairman)*
CHAN Chi Hung *(Managing Director)*

Non-Executive Director

WANG Qiang *(Deputy Chairman)*
YANG Nai Jiang *(Deputy Chairman)*
YEN Jong Ling

Independent Non-Executive Directors

CHAN Kam Man
KWOK Yuen Lam, Sophia
William Keith JACOBSEN
CHAN Man Yi

COMPANY SECRETARY

TSANG Hing Bun *CPA, ACS, ACIS, FRM*

AUDIT COMMITTEE

CHAN Kam Man *(Chairman)*
William Keith JACOBSEN
CHAN Man Yi

REMUNERATION COMMITTEE

KWOK Yuen Lam, Sophia *(Chairman)*
CHAN Chi Hung
William Keith JACOBSEN

NOMINATION COMMITTEE

KWOK Yuen Lam, Sophia *(Chairman)*
CHOY Kwok Hung, Patrick
William Keith JACOBSEN
CHAN Man Yi

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SOLICITORS

As to Hong Kong laws:
Ivan Tang & Co., Solicitors

As to Cayman Islands laws:
Conyers, Dill & Pearman

AUDITOR

BDO Limited

CUSTODIAN

DBS Vickers (Hong Kong) Limited

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Standard Chartered Bank

STOCK CODE

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