BUILDING On Our Success

Annual Report 2013

Cheung Wo International Holdings Limited
長和國際實業集團有限公司

(Incorporated in Bermuda with limited liability)
Stock Code : 00009

Contents

Corporate Information

Board of Directors

Executive Directors:
Mr. Jin Lei *(Chairman)*
Ms. Law Kee, Alice *(Chief Executive Officer)*
Mr. Hui Wai Lee, Willy

Independent Non-executive Directors:
Mr. Tsui Pui Hung
Mr. Tang Ping Sum
Mr. Chu To, Jonathan

Company Secretary

Mr. Chan Chun Fat

Solicitors

Fairbairn Catley Low & Kong
23/F, Shui On Centre
6-8 Harbour Road
Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Principal Bankers

Industrial and Commercial
Bank of China Limited
Industrial and Commercial
Bank of China (Asia) Limited
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai
Banking Corporation Limited
Chong Hing Bank Limited

Audit Committee

Mr. Tang Ping Sum *(Chairman)*
Mr. Tsui Pui Hung
Mr. Chu To, Jonathan

Remuneration Committee

Mr. Chu To, Jonathan *(Chairman)*
Mr. Tang Ping Sum
Mr. Tsui Pui Hung

Nomination Committee

Mr. Tsui Pui Hung *(Chairman)*
Mr. Tang Ping Sum
Mr. Chu To, Jonathan

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

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

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business in Hong Kong

Room 4101, 41/F
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

Chairman's Statement

Dear Shareholders,

On behalf of Cheung Wo International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present you the Group's annual results for the year ended 31 December 2013.

The past year has been one of change for the Group, but also of continuity as we continue to work for delivering high quality properties and films. We have strong confidence in the Group's future as the development projects are shedding lights on the harvesting path.

In June of 2013, the PRC Government put forward the concept of "New-type Urbanization" officially. The country will move 250 million rural residents into newly constructed towns and cities over the next dozen years – a transformative event that could set off a new wave of growth. In March 2014, the Government set out the goal of achieving economic growth of "around 7.5 percent" this year and "New-type Urbanization" is also on the top agenda. New urbanites and steadily-increasing economy mean vast opportunities for the Group, since it has focused on long-term property development and investment business in the PRC.

To realise the Group's vision and maximise our current income stream, the Group has set foot in the property and hotel development business in Xiangtan, Hunan Province, the PRC, the engine of booming regional economy since 2010. At present, the Group is developing a parcel of land measuring approximately 325,989 square meters in Jiuhua Economic District of Xiangtan for the construction project named "湘江國際公館" (Xiang Jiang Guo Ji Gong Guan*). As planned, this land is to be developed into a five-star hotel and low-density residential units with condominiums and townhouses.

The five-star hotel is built to accommodate approximately 392 rooms on a parcel of land of approximately 78,000 square meters. It is well equipped with convention and entertainment facilities to provide exclusive accommodation experience to guests. During the year under review, building works had been completed and interior decoration works was commenced. The hotel is expected its soft open by the end of 2014.

Chairman's Statement

With our five-star hotel to highlight the district, low-density residential units targeting at affluent class of Hunan Province are under construction and the pre-sale of the property is expected to start at the fourth quarter of 2014.

To further expand property development in Xiangtan, the Group purchased another piece of land measuring approximately 240 Mu (equivalent to approximately 160,229 square meters) adjacent to the existing land under development in October 2013. The newly-acquired land is initially planned to build residential units with apartments and semi-detached houses and commercial property. The Land Use Certificate was obtained and the blueprint is to be sketched. This development project will be launched in the coming year and definitely will be a new income stream for the Group in the future.

All of the Group's development projects are of high potential. With a 18.9% growth in Hunan provincial property development investment in 2013, it is believed that the property market in Xiangtan, Hunan Province will continue to be prosperous. As the Chinese work report says, the country will regulate differently in different cities in light of local conditions. It indicates that the Chinese government will encourage and promote sustained and healthy development of real estate market in the third or fourth tier cities, which provides favorable policy environment for property development in Xiangtan. In addition, urbanization and relaxing of Family Plan will give rise to a new round of population growth, which will inevitably drive rigid housing demand in the future. With the help of booming economy and higher household purchasing power in the PRC, demand for high-end residential buildings and shopping arcades remains strong in the second and third tier cities. Keeping a close eye on these markets, the Group will continue to look for investment opportunities in the property market of the PRC, with an ultimate goal to bring along better results to our shareholders.

For the film production business of the Group, 3D film "The Monkey King" had been completed and released in the Chinese New Year of 2014. The film proved to be an undoubtful success for grossing RMB400 million within four days of its release. It has broken 19 records and ranks one of the three films which exceeded RMB1 billion box office in the Chinese film history. The profit generated from box office and overseas sale of "The Monkey King" contributed significantly to the Group's film production and distribution business. This will be reflected in the Group's financial results for the year ended 31 December 2014.

Acknowledgement

On behalf of the Board, I would like to extend our sincere gratitude to all management and staff members for their diligence, dedication and contribution as well as the unceasing support from our business partners, bankers, and the Group's shareholders. In the years to come, we will continue to strive for business growth and seize opportunities to bring largest returns to our shareholders.

Management Discussion and Analysis

For the year ended 31 December 2013, the Group continued to stay focused on property development and investment business in the PRC whilst maintaining its film production and related business.

Financial Highlights

For the year ended 31 December 2013, the Group recorded a turnover of approximately HK$26,801,000, accounting for a decrease of 23.0% compared to the turnover of HK$34,813,000 last year.

For the year under review, turnover from property rental contributed approximately HK$21,187,000 (2012: HK$13,926,000). Meanwhile, film production and distribution, and film processing business income accounted for approximately 20.9% of the total turnover, amounted to approximately HK$3,235,000 (2012: HK$13,475,000) and HK$2,379,000 (2012: HK$7,412,000) respectively.

Loss attributed to shareholders was HK$65,576,000 (2012: loss of HK$17,422,000) due to operating loss attributed from (i) the expenses of property and hotel development; (ii) loss from film processing business; (iii) share-based payments recognised resulting from the grant of shares under the Group's share option scheme adopted in 2013 and (iv) impairment loss in the fair value of the Group's investment property as at 31 December 2013.

Basic loss per share was HK$6.84 cent (2012: loss of HK$2.96 cents). The Board does not recommend dividend payout for the year ended 31 December 2013 (2012: nil). As at 31 December 2013, cash on hand was approximately HK$163,161,000 (2012: HK$66,089,000).

Issue of Notes

On 18 September 2013, the Company as issuer entered into a note subscription agreement (the "Note Subscription Agreement") with Sunny Glory Investments Limited as the subscriber and Mr. Cheng as the guarantor for the issue of the 20.00% guaranteed secured notes in the combined amount of up to a maximum principal amount of USD80,000,000 (the "Note") by two tranches. The Note Subscription Agreement (as amended by a supplemental agreement dated 10 February 2014) was further amended by the parties thereto on 15 March 2014 by entering into the Amended and Restated Subscription Agreement. The Amended and Restated Subscription Agreement replaces and supersedes the Note

Management Discussion and Analysis

Subscription Agreement and all previous amendments thereto. The material changes reflected in the Amended and Restated Subscription Agreement include, among others, dividing the Note into three tranches instead of two; removing the requirement of entry into an onshore loan by the Company as one of the conditions precedent to the Note Subscription Agreement; and relaxing restriction on certain undertakings of the Company.

Pursuant to the Amended and Restated Subscription Agreement, the Company has undertaken to apply the proceeds from the issue of the Note as to 60% to real estate related projects and as to 40% to as general working capital of the Group. For further details of the Note Subscription Agreement and the Amended Restated Subscription Agreement, please refer to the Company's announcements dated 18 September 2013, 10 February 2014 and 15 March 2014 respectively.

Business review

The Group is principally engaged in property and hotel development and investment in the PRC as well as film production and related businesses.

Property and hotel development and Investment Business

Property and hotel development

For the year ended 31 December 2013, the property and hotel development business was at a loss of HK$6,418,000 before tax (2012: loss of HK$4,590,000).

The Group started to shift its primary business to property development since 2010 after acquiring the entire interest of Hunan Jiuhua International City Development Construction Company Limited ("Jiuhua"). At present, it is developing a land sized approximately 325,989 square meters into a five-star hotel and low-density residential units located in Jiuhua Economic Zone, Xiangtan, Hunan. The project that is under construction renamed as "湘江國際公館" (Xiang Jiang Guo Ji Gong Guan*) is consisted of two parts. Part one is a five-star hotel with approximately 392 rooms and with a total floor area of

Management Discussion and Analysis

approximately 78,000 square meters. The hotel will provide the guests with an exclusive accommodation experience for it is well equipped with convention and entertainment facilities. The hotel is expected to be launched by the end of 2014 with fully completion of the building works and interior decoration. The other part is residential development. The property is mainly targeting at affluent class of Hunan Province, and is expected to commence pre-sale in the fourth quarter of 2014. The opening of two roads “Binjiang Road” (濱江路) and “Jiuhua Avenue” (九華大道) lying beside the land enhances the edges to convenience of the property for only 20-minute drive to Changsha, the provincial capital city of Hunan Province.

Property rental

For the year ended 31 December 2013, the property rental revenue was approximately HK$21,187,000 (2012: HK$13,926,000), accounting for an increase of approximately 52.1%. It was contributed from a tenant operating a renowned supermarket moved in June 2012.

The property rental provides steady income stream to the Group as well as preserves management cost for the maintaining of the investment property in the coming years. Moreover, the Group will keep on looking for high quality commercial property for investment purpose, with an aim to ensure sustainable growth in the Group’s rental income and further to optimize its sustainability in profitability.

Film Related Business

Film Production and distribution

During the period under review, the film production and distribution business was operated at a loss before tax of HK$11,992,000 (2012:HK$27,752,000), representing a decrease of approximately 56.8%. However, upon the release of the 3D film “The Monkey King” in Chinese New Year of 2014, it was expected it will bring significant profit contribution into the film production business. “The Monkey King”, a cinematic rendition of Wu Cheng’en’s 16th-century epic tale Journey to the West, has been well received by market for grossing RMB400 million within four days of its opening in the PRC. Its top-notch 3D animation, beautiful illustration and the film’s star-studded cast are believed to play important role in its popularity. It has broken 19 film records in Chinese film history and ranks one of three films that exceeds RMB1 billion box office in the PRC. As the film was released internationally, it will generate profit for the film production and distribution business globally. The respective profit contribution from this film will be expected to reflect in our annual results of 2014.

Management Discussion and Analysis

Film Processing

During the period under review, the film processing business was operated at a loss before tax of HK$3,864,000 (2012:HK$6,176,000), representing a decrease of approximately 37.4%. It is mainly due to the digitalization of the film industry and the rise of material cost. In order to keep up with the industry trend, the Group paves its way to digitalization by purchasing digital equipment. Meanwhile, the relocation of film processing factory to a self-owned property will be completed in 2014 and the management will adopt other measures for the purpose of cost control.

Prospects

The central government of PRC put forward a series of new policies in its work report in 2014. Instead of committing to "regulate property price" or "regulate property market", the central government will "regulate differently in different cities in light of local conditions", which indicates that China will curb housing demand for speculation purpose in the first or second tier cities but encourage and promote sustained and healthy property development in the third or fourth tier cities in the next ten years. This has provided a favorable policy environment for property development in middle-sized cities. Additionally, because of urbanization and the revision of Family Planning Policy, China will embrace "Golden Decade of Real Estate" in the coming years for a new round of population growth and increasing rigid housing demand. Thus, the Group will strive to seize every opportunity to expand property development business, especially in Xiangtan and other second or third tier cities.

Xiangtan City, situated in the heart of Hunan Province, together with Changsha City and Zhuzhou City, are called "Chang-Zhu-Tan City Group" and regarded as the core growth pole of Central China. Thus, a sustainable, promising and competitive industrial chain will be formed with the introduction of a number of leading enterprises. The Group purchased another 240 mu land adjacent to the existing land in October 2013. The newly-acquired land is initially planned for residential and commercial use. As at the date of this announcement, the land use certificates were obtained and the blueprint plan is not being drawn up, the development of the land will commence in the close near future, which demonstrates huge potential to deliver optimum returns to our shareholders.

Looking ahead, the Group will continue to identify promising development projects to accumulate land bank. In addition, we will continue to put tremendous effort in responding to market challenges to maximize shareholders' interests and maintain a healthy balance sheet with stable cash flow.

Dividend

The Directors do not recommend payment of a final dividend for the year ended 31 December 2013 (2012: nil).

Management Discussion and Analysis

Liquidity and financial resources

At 31 December 2013, the Group's total equity amounted to HK$1,506,140,000 (2012: HK$1,228,520,000). The gearing ratio based on interest-bearing bank and other borrowings, loans from a shareholder, obligations under finance leases and convertible bonds over total equity was 0.249 (2012: 0.187).

Net current assets was HK$851,942,000 (2012: HK$591,067,000) and current assets was HK$1,282,068,000 (2012: HK$678,863,000). Current liabilities were HK$430,126,000 (2012: HK$87,796,000), representing a current ratio based on current assets over current liabilities of 2.98 (2012: 7.73).

At 31 December 2013, the Group had cash and bank balances of HK$163,161,000 (2012: HK$66,089,000).

Borrowing and banking facilities

At 31 December 2013, the Group had outstanding borrowings from banks and others and convertible bonds were HK$375,101,000 (2012: HK$229,255,000).

Hedging

At 31 December 2013, no financial instruments were used for hedging (2012: Nil).

Charges on group assets

At 31 December 2013, the Group's bank borrowings of HK$315,936,000 (2012: HK$135,435,000) were secured by the Group's land use right with net carrying amount of HK$317,548,000 (2012: HK$317,856,000) and the Group's current bank borrowings of HK$1,240,000 (2012: HK$1,430,000) were secured by the Group's leasehold land and buildings with net carrying amount of HK$754,000 (2012: HK$782,000) and motor vehicles with a net carrying amount of HK$4,986,000 (2012: HK$6,724,000).

Material litigation

Save for those disclosed in note 39, the Group had no material litigation or arbitration.

Management Discussion and Analysis

Employees and remuneration policies

Staff costs for the year ended 31 December 2013 were HK$59,752,000 (2012: HK$15,083,000). The significant increase was mainly due to the share-based compensation recognised amounting to HK$46,438,000 granted to certain directors and employees. The Group employed a workforce of 67 staff members (2012: 56 staff members) as at the end of 2013. Among the 67 staff members, 16 staff members were in the film processing department. Salaries of employees were maintained at competitive levels while bonuses were granted on a discretionary basis.

Exposure of foreign exchange

The Group's asset and liabilities are mainly denominated in Hong Kong Dollars, US Dollars and Renminbi. There is no significant exposure to the fluctuation of foreign exchange rate, but the Group will closely monitor the market and make appropriate adjustment and measures when necessary.

Capital expenditures

For the year ended 31 December 2013, the Group's capital expenditure were HK$136,520,000 (2012: HK$38,794,000).

Purchase, redemption or sale of listed securities of the Company

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

Corporate Governance Report

Corporate governance practices

The Company has, throughout the financial year ended 31 December 2013, complied with all the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), save as disclosed below. This report describes the Company's corporate governance practices and explains its applications.

Directors' securities transactions

The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules was adopted by the Company. Specific enquiry of all Directors who were in office during the financial year ended 31 December 2013 was made and they have confirmed compliance with the Model Code during the financial year.

Board of Directors

(I) Composition of the Board

The Board currently comprises 6 Directors, with 3 executive Directors and 3 independent non-executive Directors ("INED") whose biographical details are set out in "Biographical Details of Directors" on pages 27 to 28. The Directors for the year and up to the date of this report were as follows:

Executive Directors
Mr. Jin Lei *(Chairman)*
Ms. Law Kee, Alice *(Chief Executive Officer)*
Mr. Hui Wai Lee, Willy

Independent Non-executive Directors
Mr. Tsui Pui Hung
Mr. Tang Ping Sum
Mr. Chu To, Jonathan

The Board is comprised of experienced and high competence individuals and a balanced composition of executive and non-executive Directors.

Each Director has been appointed on the strength of his/her calibre, experience and stature, and his/her potential contribution to the growth and development of the Group and its businesses. The Directors had no financial, business, family or other material/relevant relationship with each other during the year under review.

Corporate Governance Report

(II) Operation of the Board

The Company is headed by an effective Board which takes decisions objectively in the interests of the Company. To provide effective supervision of and proper guidance to the management, the Board is required to consider and approve decisions in relation to the Group's long-term strategy, annual business plan and financial budget, major acquisition and disposal, dividend policy, appointment of Directors, remuneration policy, risk management and internal control. Apart from formal meetings, matters requiring Board approval were arranged by means of circulation of written resolutions and telephone conference.

A clear division of responsibilities is evident between the Board and the management. Decisions on important matters, such as the Group's strategic policies, major investment, funding decisions and major commitments relating to the Group's operations, are specifically reserved to the Board while decisions on the Group's general day-to-day operations are delegated to the management.

(III) Directors' training and continuous professional development

Newly appointed Directors have received briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Directors are kept informed of the Group's affairs and development in a timely manner so as to enable them to make an informed decision and to discharge their duties and responsibilities as Directors effectively.

The Company continuously provides updates and presentations to Directors on the latest developments relating to the Group's business and the legislative regulatory requirements to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group.

During the year, the Directors have also participated the following:

Directors	Types of Training
Mr. Jin Lei	B, C
Ms. Law Kee, Alice	A, B, C
Mr. Hui Wai Lee, Willy	B
Mr. Tsui Pui Hung	A, B
Mr. Tang Ping Sum	A, B
Mr. Chu To, Jonathan	A, B

A attending seminar(s) and/or conference(s) on regulations and updates
B reading materials relating to the general business, property development and Directors' duties and responsibilities etc.
C Attending corporate event(s)/visits

Corporate Governance Report

Chairman and chief executive officer

In order to have a clear division between the management of the Board and the day-to-day management of the business operation of the Group, the role of the chairman is separate from that of the chief executive officer. The chairman, Mr. Jin Lei, focuses on the overall corporate development and strategic direction of the Group and provides leadership for the Board and oversees the efficient functioning of the Board. The chief executive officer, Ms. Law Kee, Alice, is responsible for all day-to-day corporate management matters as well as assisting the chairman in planning and developing the Group's strategies. Such division of responsibilities helps to reinforce their independence and to ensure a balance of power and authority.

Non-executive Directors

All non-executive Directors are appointed for a specific term of one year from the dates of their appointments which will be renewed automatically unless early terminated by either party with at least one month prior written notice. However, they are appointed subject to retirement by rotation and reelection at the general meetings of the Company in accordance with the provisions of the bye-laws of the Company (the "Bye-laws").

The Company has received the annual confirmations of independence from each of the independent non-executive Director as required under Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

Remuneration Committee

The remuneration committee (the "Remuneration Committee") consists of 3 independent non-executive Directors and Mr. Chu To, Jonathan is the chairman of the Remuneration Committee.

The Remuneration Committee shall meet at least once a year. 1 meeting was held during the financial year ended 31 December 2013, during which the remuneration policy in remunerating the Directors and senior management of the Group was reviewed. None of the Directors participated in the determination of his/her own remuneration. Attendance of the members of the Remuneration Committee is set out in "Attendance Records at Meetings" on page 15.

According to the terms of reference of the Remuneration Committee, its major roles and functions, inter alias, include making recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management of the Company and on the establishment of a formal and transparent procedure for establishing remuneration policy as well as reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

Corporate Governance Report

The emolument payable to Directors depends on their respective terms under the service contracts (if any), and as recommended by the Remuneration Committee. Details of the Directors' emolument are set out in note 8 to the financial statements.

Nomination committee

The Company has set up a nomination committee (the "Nomination Committee") on 20 March 2012 in compliance with the Code. The Nomination Committee consists of 3 independent non-executive Directors appointed by the Board and Mr. Tsui Pui Hung is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once a year. 1 meeting was held during the financial year ended 31 December 2013. Attendance of the members of the Nomination Committee is set out in "Attendance Records at Meetings" on page 15.

The major duties and functions of the Nomination Committee, inter alias, include reviewing the structure, size and composition of the Board at least annually and make recommendations to the Board on the nomination and appointment of Directors and the succession planning of the Directors.

The Board has adopted a "Board Diversity Policy" in relation to the nomination and appointment of new directors, which sets out: the selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

The above measurements were also reviewed and adopted when the Nomination Committee reviewed the composition of the Board. After assessing the suitability of the directors' skills and experience to the Company's business, the Nomination Committee confirmed that the existing Board was appropriately structured and no change was required.

The terms of reference of the Nomination Committee (as revised on 30 August 2013) are available on the websites of the Stock Exchange and the Company.

Audit Committee

The Company has set up an audit committee (the "Audit Committee") consisting of 3 independent non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise. Mr. Tang Ping Sum is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditors of the Company. 2 Audit Committee meetings were held during the financial year ended 31 December 2013. Attendance of the members is set out in "Attendance Records at Meetings" on page 15.

Corporate Governance Report

According to the existing terms of reference of the Audit Committee, its major roles and functions, inter alias, are to review the half-year and annual financial statements before submission to the Board and to review the Company's statement on internal control system. The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

Attendance records at meetings

The attendance records of each Director at the various meetings of the Company during the year ended 31 December 2013 are set out as follows:

	Attended					
	Annual general meeting	Special general meetings	Board meetings	Remuneration committee meeting	Nomination committee meeting	Audit committee meetings
Number of meetings	1	3	23	1	1	2
Executive Directors						
Mr. Jin Lei	1/1	0/3	23/23	N/A	N/A	N/A
Ms. Law Kee, Alice	1/1	3/3	23/23	N/A	N/A	N/A
Mr. Hui Wai Lee, Willy	1/1	3/3	23/23	N/A	N/A	N/A
Independent Non-Executive Directors						
Mr. Chu To, Jonathan	1/1	2/3	23/23	1/1	1/1	2/2
Mr. Tang Ping Sum	1/1	3/3	23/23	1/1	1/1	2/2
Mr. Tsui Pui Hung	1/1	3/3	23/23	1/1	1/1	2/2

According to the code provision A.6.7 of the Code, independent non-executive directors and other non-executive directors should attend general meetings of the Company. Due to other pre-arranged business engagement, Mr. Chu To, Jonathan, an independent non-executive Director, was unable to attend the special general meeting of the Company held on 2 September 2013.

Auditors' remuneration

The fee in relation to the audit services for the financial year ended 31 December 2013 provided by PricewaterhouseCoopers, the external auditor of the Company, amounted to HK$1,750,000.

Corporate Governance Report

Internal control

The Directors are ultimately responsible for the internal control system of the Group and, through the Audit Committee, have reviewed the effectiveness of the system. The internal control system comprises a well-defined organisational structure with specified limits of authority in place. Areas of responsibility of different business and operational units are clearly defined to ensure effective checks and balances.

Various procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. Such procedures are designed to manage risks of operational systems failure and to provide reasonable assurance against material errors, losses or fraud.

For the financial year ended 31 December 2013, a review of the effectiveness of the Group's internal control system and procedures covering the relevant controls, including financial, operational and compliance and risk management, was conducted by the Audit Committee and subsequently reported to the Board. Based on the result of the review, the Directors considered that the Group's internal control system and procedures were effective and satisfactory.

Directors' responsibilities for the financial statements

The Directors understand and acknowledge their responsibility for overseeing the preparation of financial statements for the financial year ended 31 December 2013, which give a true and fair view of the affairs, profitability and cash flow of the Group in compliance with the requirements of the Companies Ordinance (the "Companies Ordinance") (Chapter 622 of the Laws of Hong Kong) and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended 31 December 2013:

(i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;

(ii) prudent and reasonable judgments and estimates are made; and

(iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

Corporate Governance Report

Company secretary

Under the code provision F.1.1 of the Code, the Company engages Mr. Chan Chun Fat as its company secretary. Mr. Chan is a practicing solicitor and in performing his duties as the company secretary of the Company, he reports to the Board and maintains contacts with the chief executive officer of the Company.

Communication with shareholders

The Company recognises the importance in engaging in regular, effective and fair communication with its shareholders and is committed to conveying important and relevant information to the Shareholders on a timely basis.

The Company strives to ensure that information is made publicly available in a prompt and timely disseminated manner. Disclosure of information is made through announcements on the Stock Exchange, the Company's annual and interim reports, press releases, as well as the Company website (http://www.cheung-wo.com).

Shareholders' rights

(i) Convening a special general meeting by Shareholders

Pursuant to Bye-law 58, Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of section 74(3) of the Companies Act of Bermuda.

(ii) Putting forward proposals at general meetings

A Shareholder shall make a written requisition to the Board or the company secretary of the Company at the head office address of the Company, specifying his/her/its shareholding information, his/her/its contact details and the proposal he/she/it intends to put forward at the general meeting regarding any specified transaction/business with supporting documents.

(iii) Putting forward enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's head office in Hong Kong at Room 4101, 41/F, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

Report of the Directors

The Directors have pleasure in presenting to the Shareholders the Company's annual report together with the audited financial statements for the year ended 31 December 2013.

Principal activities

The Company is an investment holding company. The Group is principally engaged in property rental and property and hotel development in the PRC as well as film production and related businesses.

Results

The results of the Group for the year ended 31 December 2013 are set out in the consolidated income statement on page 31 of the financial statements.

The Directors do not recommend the payment of a dividend for the year.

Property, plant and equipment, and investment property

Details of the movements in the property, plant and equipment, and investment property of the Group during the year are set out in notes 13 and 15 to the financial statements, respectively.

Share capital and convertible bonds

Details of movements in the Company's share capital and convertible bonds during the year are set out in notes 31 and 28 to the financial statements, respectively.

Purchase, redemption or sale of listed securities of the Company

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

Report of the Directors

Distributable reserves of the Company

As at 31 December 2013, the reserve of the Company available for distribution to the Shareholders amounted to HK$424,593,000. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

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

Directors and directors' service contracts

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

Executive Directors:

Mr. Jin Lei *(Chairman)*
Ms. Law Kee, Alice *(Chief Executive Officer)*
Mr. Hui Wai Lee, Willy

Independent non-executive Directors:

Mr. Tsui Pui Hung
Mr. Tang Ping Sum
Mr. Chu To, Jonathan

In accordance with Bye-laws 87(1) and 87(2), Mr. Jin Lei and Mr. Chu To, Jonathan shall retire from office by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election as executive/independent non-executive Directors (as the case may be).

The term of office of each of the independent non-executive Directors is for an initial term of one year and renewable automatically for successive terms of one year. Either the independent non-executive Director or the Company may terminate the appointment by giving to the other party at least one month's prior notice in writing. All of the independent non-executive Directors are subject to retirement by rotation in accordance with the Bye-laws.

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

Report of the Directors

Each of the executive Directors has entered into a service contract with the Company for an initial term of one year and all of which shall continue thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

Executive Directors	Date of commencement of service contract
Ms. Law Kee, Alice	16 October 2007
Mr. Hui Wai Lee, Willy	6 April 2009
Mr. Jin Lei	8 March 2011

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' and chief executive's interests in shares of the Company

As at 31 December 2013, none of the Directors and chief executive of the Company have any interests or short positions in the existing shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register maintained by the Company or which are required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules to be notified to the Company and the Stock Exchange.

Share options

The previous share option scheme of the Company which was adopted on 21 August 2001 (the "Previous Share Option Scheme") lapsed on 20 August 2011. As at 31 December 2013, there was no option outstanding held by any Director, employee of the Company or any eligible persons as defined in the Previous Share Option Scheme.

Report of the Directors

On 2 September 2013, the Company adopted a share option scheme (the “Scheme”). The major terms of the Scheme are as follows:

1. The purpose of the Scheme is to attract and retain talented personnel for future development of the Group; to provide incentive to encourage Participants (as defined below) to perform their best in achieving the goals of the Group and allow the Participants to enjoy the results of the Group attained through their efforts and contributions.

2. The eligible grantees of the Scheme are (i) any employee or officer (whether full time or part time, and including any executive director) of any member of the Group; (ii) or any non-executive director (including independent non-executive director) of any member of the Group; (iii) any supplier of goods or services to any member of the Group; (iv) any customer of any member of the Group; (v) any holder of any securities or securities convertible into any securities issued by any member of the Group; (vi) any person or entity that provides advisory, consultancy or professional services to any member of the Group or any director or employee of any such entity; and (vii) any other group or classes of participants from time to time determined by the Directors as having contributed to the development and growth of the Group.

3. The subscription price determined by the Board will be at least the highest of (i) the closing price of the Company’s share as stated in the Stock Exchange’s daily quotations sheet on the date of grant; (ii) the average closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share.

4. The maximum number of shares which may be granted under the Scheme must not exceed 10% of the total number of Company’s shares in issue as at the date of approval of the Scheme.

5. The total number of shares issued and to be issued upon exercise of the share options (the “Options”) granted (including exercised, cancelled and outstanding Options) to each Participant, within the 12-month period immediately preceding the proposed date of grant, shall not exceed 1% of the total number of Company’s share in issue. Any further grant shall be subject to the shareholders’ approval of the Company with such Participant and his/her associates abstaining from voting.

6. The exercise period of the Options must be less than ten years from the date of grant.

7. The Scheme shall be valid and effective until 2 September 2023.

On 5 November 2013, the Company granted the Options to the directors and certain employees of the Company to subscribe for a total of 77,812,266 ordinary shares.

Report of the Directors

Details of the share option granted under the Scheme to certain directors of the Company to subscribe for the shares in the Company are as follows:

Name of director	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 1.1.2013	Granted during the year	Forfeited during the year	Outstanding as at 31.12.2013	Percentage to the issued share capital[(1)] %
Mr. Jin Lei	5.11.2013	5.11.2013 to 4.11.2023	0.94	–	11,116,038	–	11,116,038	1
Ms. Law Kee, Alice	5.11.2013	5.11.2013 to 4.11.2023	0.94	–	11,116,038	–	11,116,038	1
				–	22,232,076	–	22,232,076	2

Details of the share options granted under the Scheme to certain employees of the Company for shares in the Company are as follows:

Name of Employees	Date of grant	Exercisable period share	Exercise price per share HK$	Outstanding as at 1.1.2013	Granted during the year	Forfeited during the year	Outstanding as at 31.12.2013	Percentage to the issued share capital[(1)] %
Ms. Hu Hui	5.11.2013	5.11.2013 to 4.11.2023	0.94	–	11,116,038	–	11,116,038	1
Mr. Mak Kam Fai	5.11.2013	5.11.2013 to 4.11.2023	0.94	–	11,116,038	–	11,116,038	1
Mr. Li Fu Chu	5.11.2013	5.11.2013 to 4.11.2023	0.94	–	11,116,038	–	11,116,038	1
Mr. Liu Jun Guang	5.11.2013	5.11.2013 to 4.11.2023	0.94	–	11,116,038	–	11,116,038	1
Mr. Tan Yue	5.11.2013	5.11.2013 to 4.11.2023	0.94	–	11,116,038	–	11,116,038	1
				–	55,580,190	–	55,580,190	5

Report of the Directors

Notes:

(1) As at 31 December 2013, the number of issued shares of the Company is 1,111,603,816.

(2) The closing price of the Company's shares immediately before 5 November 2013, the date of grant of the options was HK$0.85.

Details of movements in the Company's share options during the year are set out in note 33 to the financial statements.

Arrangement to purchase shares or debentures

At no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Substantial Shareholders

As at 31 December 2013, the register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholder had notified the Company of relevant interests in the issued share capital of the Company:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name of shareholder	Capacity	Number of ordinary shares held	Percentage of the issued share capital of the Company
Mr. Cheng Keung Fai ("Mr. Cheng")	Interest of controlled corporation	930,295,626	83.69%
Full Dragon Group Limited *(Note 1)*	Beneficial owner	766,016,300	68.91%
Alpha Harbour Limited *(Note 2)*	Beneficial owner	55,813,953	5.02%
Classic Excel Investments Limited *(Note 2)*	Beneficial owner	55,813,953	5.02%
Digital Skyline Limited *(Note 2)*	Beneficial owner	52,651,418	4.74%

Report of the Directors

Notes:

1. The entire issued share capital of Full Dragon Group Limited is owned by Mr. Cheng.

2. The Shares held by each of Alpha Harbour Limited, Classic Excel Investments Limited and Digital Skyline Limited represent 55,813,953, 55,813,953 and 52,651,418 shares to be allotted and issued upon the exercise of conversion rights attaching to the Convertible Bonds (as defined in the paragraph headed "Directors' interest in contracts and connected transaction" below). Mr. Cheng, the beneficial owner of the entire issued share capital of each of Alpha Harbour Limited, Classic Excel Investments Limited and Digital Skyline Limited, is deemed to be interested in the shares held by these companies.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 31 December 2013.

Directors' interest in contracts and connected transactions

(i) Connected transactions

During the year ended 31 December 2013, the Group had entered into transactions which constituted connected transactions under the Listing Rules. Details are set out below:

(a) On 8 April 2013, the Group and Full Dragon Group Limited (the "Subscriber"), which is beneficially owned by Mr. Cheng Keung Fai ("Mr. Cheng"), a controlling shareholder of the Company, entered into a subscription agreement (the "Subscription Agreement"), pursuant to which, the Subscriber agreed to subscribe for the zero coupon convertible bonds due 2018 (the "Convertible Bonds") in an aggregate principal amount of not more than HK$314,640,110. The Group and the Subscriber entered into a letter agreement (the "Letter Agreement") on 13 May 2013, pursuant to which, it was agreed that the amount of the Convertible Bonds to be subscribed by the Subscriber under the Subscription Agreement was HK$214,640,110, which was satisfied by (i) a sum of not more than HK$200,000,000 to be paid in cash in immediate available fund by the Subscriber; and (ii) a sum of HK$14,640,110 to be satisfied by the setting-off of the Shareholder's loan owed to Mr. Cheng. As agreed in the Letter Agreement, the completion took place on 24 May 2013 and the Convertible Bonds in the principal amount of HK$214,640,110 were issued to the Subscriber and its nominees, namely Alpha Harbour Limited, Classic Excel Investments Limited and Digital Skyline Limited, all of which are entirely owned by Mr. Cheng.

(b) Interest of HK$48,000 was paid to Mr. Cheng for being the interest incurred for the granting of loans by Mr. Cheng to the Group in the principal amount of HK$14,640,110. The Loans were unsecured and carry an interest rate of 1% per annum. The outstanding amount of HK$14,640,110 was settled at the completion of the issue of Convertible Bonds on 24 May 2013.

Report of the Directors

(c) On 18 September 2013, the Company as issuer entered into a subscription agreement with Sunny Glory Investments Limited as the subscriber ("Sunny Glory") and Mr. Cheng as the guarantor, pursuant to which, subject to fulfillment of conditions precedent, Sunny Glory has agreed to subscribe for and the Company has agreed to issue the notes in an aggregate principal amount of not more than USD80,000,000 (equivalent to approximately HK$620,000,000) (the "Notes") by two tranches. The Company has also been informed by Mr. Cheng that a facility agreement has been entered into between, among others, Sunny Glory and a lender (the "Lender"), pursuant to which, the Lender has agreed to provide a loan facility in an amount of not more than USD80,000,000 (equivalent to approximately HK$620,000,000) to Sunny Glory (the "Facility Agreement"). Mr. Cheng has agreed to provide guarantee for the performance of the obligations of Sunny Glory under the Facility Agreement. In addition, an option deed was entered into between the Lender and Mr. Cheng on 10 November 2013 (the "Option Deed"), pursuant to which, the Lender shall have a right to sell to Mr. Cheng all or any of the Shares which may be obtained by Sunny Glory under the Notes and transferred to the Lender as part payment of interest accrued and payable by Sunny Glory to the Lender pursuant to the Facility Agreement.

Other than disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Changes in directors' information

In accordance with Rule 13.51B of the Listing Rules, changes of the information of Directors required to be disclosed are set out below:

The monthly remuneration of Ms. Law Kee, Alice, an executive Director and the chief executive officer of the Company, has been adjusted from HK$64,000 to HK$85,000 with effect from 1 January 2013. Such increment was determined with reference to her workload, job complexity and responsibilities with the Group.

Mr. Tang Ping Sum, an independent executive Director, ceased to be an independent non-executive director of China Investment Development Limited (stock code: 204), a company listed on the Stock Exchange, with effect from 1 February 2014.

Emolument policy

The Group remunerates its employees including the Directors, based on their performances, experiences and the prevailing market rate. Other employee benefits include insurance, medical cover and subsidised training programme. Emoluments of the Directors are determined after taking into consideration of their expertise and job specifications.

Report of the Directors

Pre-emptive rights

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

Major customers and suppliers

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 52.67% and 80.89%, respectively, of the Group's total revenue for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 39.93% and 80.84%, respectively, of the Group's total purchases for the year.

None of the Directors, their associates, or any Shareholder (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) has any interest in the Group's five largest customers and suppliers.

Sufficiency of public float

The Company has maintained a sufficient public float throughout the year ended 31 December 2013.

Events after the reporting period

Details of the events after the reporting period of the Group are set out in note 42 to the financial statements.

Auditor

PricewaterhouseCoopers, the Company's auditor, will retire and, being eligible, offer themselves for reappointment. A resolution for the re-appointment of PricewaterhouseCoopers as the Company's auditor for the ensuring year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Law Kee, Alice
Director

Hong Kong, 27 March 2014

Biographical Details of Directors

Executive directors

Mr. JIN Lei, aged 42, is an executive Director and the chairman of the Company. Mr. Jin has over 20 years solid experience in construction work, property development and operation management. Mr. Jin was a civil engineer of 山東淄川建築設計院 (Architectural Design Institute of Shandong Zichuan) from 1993 to 1995. From 1995 to 2001, Mr. Jin was the 主任工程師 (engineer supervisor) of 山東黃淮糧油機械集團(濟寧機械設計院土木建築室) (Shandong Huanghuai Cereals & Oils Machinery Group Company (Civil Construction House of Jining Machinery Design Institute)). In 2002, Mr. Jin was awarded by the municipal government of Jining City, Shandong Province, the PRC as one of the 百名經濟管理人才 (Top 100 Managerial Talents in Economics). Mr. Jin holds a bachelor degree from 華東交通大學建築工程系 (Department of Architectural Engineering, East China Jiaotong University), major in 工業與民用建築 (Industrial and Residential Architecture). Mr. Jin was also awarded a master degree in business administration by 中國人民大學 (Renmin University of China) in 2005.

Ms. LAW Kee, Alice, aged 47, is an executive Director and the chief executive officer of the Company. Ms. Law joined the Group in September 2007 and was appointed as an executive Director in October 2007. Ms. Law holds a bachelor degree in business administration from University of Management and Technology, USA. She has extensive experience in business development, operation and marketing management. She is a member of The Hong Kong Institute of Directors and a member of The Hong Kong Real Property Federation.

Mr. HUI Wai Lee, Willy, aged 53, is currently a director of Supreme Jewellery Company. Mr. Hui joined the Group as an executive Director in April 2009. He has extensive experience in designing and manufacturing of European-style jewelry.

Biographical Details of Directors

Independent non-executive directors

Mr. TSUI Pui Hung, Walter, aged 39, is a practicing solicitor of the High Court of Hong Kong and an independent non-executive director of Unlimited Creativity Holdings Limited (Stock Code: 8079). Mr. Tsui holds the degrees of a Master in Laws from University of London, a Bachelor of Laws (with Honours) from Manchester Metropolitan University, a Bachelor of Science (with Honours) from the Chinese University of Hong Kong, a Postgraduate Certificate in Laws from University of Hong Kong and a Diploma in Translation from the Chinese University of Hong Kong. Mr. Tsui has years of management experience and is familiar with internal control issues and regulatory rules of listed company.

Mr. TANG Ping Sum, aged 57, obtained a bachelor degree of commerce from University of Western Australia in December 1981 and a master degree of applied finance from Macquarie University, Australia in April 1992. He is a certified practicing accountant of Australia and was a fellow member of the Hong Kong Institute of Certified Public Accountants until 2007. Mr. Tang has over 14 years' experiences in the securities industry in Hong Kong.

Mr. Tang joined Hantec Investment Holdings Limited (stock code: 111, now known as Cinda International Holdings Limited), a company listed on the Stock Exchange, in January 1998. He was appointed as its executive director in May 2000 until October 2006. He was then the head of China division of Taifook Securities Group from January 2007 to September 2008, responsible for developing its securities businesses in China. Mr. Tang is currently the responsible officer and executive director of Grand Partners Asset Management Limited ("Grand Partners") and is mainly responsible for monitoring the risk control of Grand Partners.

From March 2003 to December 2006, Mr. Tang was an independent non-executive director of Cosmopolitan International Holdings Limited (stock code: 120), a company listed on the Stock Exchange. He was an independent non-executive director of Sino Resources Group Limited (stock code: 223), a company listed on the Stock Exchange, from 30 April 2009 to 31 December 2010; and a non-executive director of Univision Engineering Limited (AIM code: UVEL), a company listed on the Alternative Investment Market of the London Stock Exchange, from December 2005 to December 2011. He was an independent non-executive director of China Investment Development Limited (stock code: 204), a company listed on the Stock Exchange, from 6 April 2011 to 31 January 2014.

Mr. CHU To, Jonathan, aged 49, obtained a bachelor degree of science from University of Toronto, Canada in 1986. He has over 25 years of experience in the finance sector and has extensive experience particularly in private equity (including pre-IPO investments) and fund management. Mr. Chu was the deputy managing director and responsible officer of China Everbright Securities (HK) Limited and China Everbright Forex and Futures (HK) Limited from May 2003 to October 2011. Mr. Chu is currently the director and responsible officer of Colors Securities Limited, mainly responsible for monitoring its daily operations. In addition, Mr. Chu is currently the chairman and chief executive officer of Metallix Resources Limited, which is principally engaged in mining and processing of lead, zinc and copper ores.

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Cheung Wo International Holdings Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Cheung Wo International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda 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.

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Independent Auditor's Report

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 2013, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2014

Consolidated Income Statement

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Revenue	5	26,801	34,813
Cost of sales	7	(7,662)	(40,909)
Gross profit (loss)		19,139	(6,096)
Other income	5	1,132	11,182
Fair value loss on an investment property	15	(18,809)	–
Administrative expenses	7	(81,866)	(31,127)
Operating loss		(80,404)	(26,041)
Finance income	6	640	883
Finance costs	6	(285)	(5,717)
Share of loss of an investment accounted for using the equity method	18	(16)	(58)
Loss before income tax		(80,065)	(30,933)
Income tax credit	9	14,489	13,590
Loss for the year	10	(65,576)	(17,343)
Loss attributable to:			
Equity holders of the Company		(65,576)	(17,422)
Non-controlling interests		–	79
		(65,576)	(17,343)

	Note	2013	2012
Loss per share attributable to equity holders of the Company	12		
Basic		HK(6.84)cents	HK(2.96) cents
Diluted		HK(6.84)cents	HK(2.96) cents

Details of the dividends are disclosed in note 11 to the consolidated financial statements.

The notes on pages 40 to 111 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Loss for the year	**(65,576)**	(17,343)
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Exchange differences arising on translation of foreign operations	**30,484**	1,205
Other comprehensive loss for the year, net of tax	**30,484**	1,205
Total comprehensive loss for the year	**(35,092)**	(16,138)
Attributable to:		
Equity holders of the Company	**(35,092)**	(16,217)
Non-controlling interests	**–**	79
Total comprehensive loss for the year	**(35,092)**	(16,138)

The notes on pages 40 to 111 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
ASSETS			
Non-current assets			
Goodwill	16	199,589	194,453
Property, plant and equipment	13	227,432	84,478
Land use rights	14	317,548	317,856
Investment property	15	342,474	352,130
Investment accounted for using the equity method	18	69,988	65,980
Prepayments and deposits paid	22	63,341	55,768
Film rights		102	102
Deferred income tax assets	29	86	–
Total non-current assets		1,220,560	1,070,767
Current assets			
Film production in progress		–	530
Properties development in progress	19	1,003,211	441,821
Inventories	20	5	474
Trade receivables	21	8,137	12,037
Other receivables, prepayments and deposits paid	22	107,485	157,899
Tax recoverable		69	13
Cash and cash equivalents	23	163,161	66,089
Total current assets		1,282,068	678,863
LIABILITIES			
Current liabilities			
Trade and land payables	24	345,322	6,418
Other payables, accruals and deposits received	25	25,418	27,223
Interest-bearing bank and other borrowings	26	58,109	32,211
Obligations under finance leases	27	1,241	1,189
Loans from a shareholder	30	–	14,640
Tax payable		36	6,115
Total current liabilities		430,126	87,796
Net current assets		851,942	591,067
Total assets less current liabilities		2,072,502	1,661,834

The notes on pages 40 to 111 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current liabilities			
Convertible bonds	28	22,620	42,070
Deposits received		3,199	3,055
Deferred income tax liabilities	29	247,412	249,044
Interest-bearing bank borrowings	26	290,661	135,435
Obligations under finance leases	27	2,470	3,710
Total non-current liabilities		566,362	433,314
Net assets		1,506,140	1,228,520
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	31	11,116	6,866
Share premium	32	749,281	523,467
Contributed surplus	32	459,047	459,047
Equity component of convertible bonds	32	51,274	15,064
Other reserves	32	146,351	69,429
Retained profits	32	89,071	154,647
Total equity		1,506,140	1,228,520

The financial statements were approved by the Board of Directors on 27 March 2014 and were signed on its behalf.

Law Kee, Alice
Director

Hui Wai Lee, Willy
Director

The notes on pages 40 to 111 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to equity holders of the Company										
	Issued capital HK$'000	Share premium HK$'000	Contributed surplus[1] HK$'000	Equity component of convertible bonds HK$'000	Exchange reserve HK$'000	Special reserve[2] HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2012	343,318	347,213	119,162	15,064	50,298	17,926	–	171,563	1,064,544	30,427	1,094,971
Comprehensive income											
Loss for the year	–	–	–	–	–	–	–	(17,422)	(17,422)	79	(17,343)
Other comprehensive income											
Exchange differences arising on translation of foreign operations	–	–	–	–	1,205	–	–	–	1,205	–	1,205
Total comprehensive loss for the year	–	–	–	–	1,205	–	–	(17,422)	(16,217)	79	(16,138)
Capital reorganisation (note 31(b))	(339,885)	–	339,885	–	–	–	–	–	–	–	–
Issue of shares (note 31(c))	3,433	181,272	–	–	–	–	–	–	184,705	–	184,705
Share issue expenses	–	(5,018)	–	–	–	–	–	–	(5,018)	–	(5,018)
Acquisition of non-controlling interests (note 34)	–	–	–	–	–	–	–	506	506	(30,506)	(30,000)
Total transactions with equity holders recognised directly in equity	(336,452)	176,254	339,885	–	–	–	–	506	180,193	(30,506)	149,687
Balance at 31 December 2012	6,866	523,467	459,047	15,064	51,503	17,926	–	154,647	1,228,520	–	1,228,520
Balance at 1 January 2013	6,866	523,467	459,047	15,064	51,503	17,926	–	154,647	1,228,520	–	1,228,520
Comprehensive income											
Loss for the year	–	–	–	–	–	–	–	(65,576)	(65,576)	–	(65,576)
Other comprehensive income											
Exchange differences arising on translation of foreign operations	–	–	–	–	30,484	–	–	–	30,484	–	30,484
Total comprehensive loss for the year	–	–	–	–	30,484	–	–	(65,576)	(35,092)	–	(35,092)
Issue of shares (note 31(d)&(e))	4,250	226,261	–	(119,585)	–	–	–	–	110,926	–	110,926
Share issue expenses	–	(447)	–	–	–	–	–	–	(447)	–	(447)
Issue of convertible bonds (note 28))	–	–	–	155,795	–	–	–	–	155,795	–	155,795
Grant of share options	–	–	–	–	–	–	46,438	–	46,438	–	46,438
Total transactions with equity holders recognised directly in equity	4,250	225,814	–	36,210	–	–	46,438	–	312,712	–	312,712
Balance at 31 December 2013	11,116	749,281	459,047	51,274	81,987	17,926	46,438	89,071	1,506,140	–	1,506,140

1 Contributed surplus of the Group arose from the Company's capital reorganisation on 6 September 2010 and 24 May 2012.

2 Special reserve of the Group mainly represents the sum of the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the group reorganisation in 2001 of approximately HK$10,420,000 and the consideration for the acquisition of additional interests in jointly-controlled entities which became wholly-owned subsidiaries by the substantial shareholder of the Company prior to the group reorganisation of HK$7,506,000.

The notes on pages 40 to 111 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Cash flows from operating activities			
Loss before income tax		**(80,065)**	(30,933)
Adjustments for:			
Interest income on short-term bank deposits	6	**(618)**	(301)
Finance costs	6	**285**	5,717
Depreciation	7	**4,194**	4,089
(Gain) loss on disposal of property, plant and equipment	7	**(187)**	130
Fair value loss on an investment property	15	**18,809**	–
Share of loss from an investment accounted for using equity method	18	**16**	58
Impairment loss on film production in progress		**530**	
Recognisation of share based payment		**46,438**	–
Reversal of provision for impairment of trade receivables	7	**(588)**	(79)
		(11,186)	(21,319)
Changes in working capital:			
Increase in properties development in progress		**(539,386)**	(7,055)
Decrease in inventories		**469**	769
Decrease in film rights and film production in progress		**–**	18,426
Decrease (increase) in trade receivables		**4,648**	(4,907)
Decrease (increase) in other receivables, prepayments and deposits paid		**44,745**	(130,391)
Increase (decrease) in trade and land payables		**321,229**	(2,200)
Decrease in other payables, accruals and deposits received		**(2,556)**	(5,179)
Cash used in operations		**(182,037)**	(151,856)
Hong Kong profits tax refunded (paid)		**8**	(664)
PRC corporate income tax recovered		**–**	140
Net cash used in operating activities		**(182,029)**	(152,380)

The notes on pages 40 to 111 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Cash flows from investing activities			
Purchase of property, plant and equipment		(124,679)	(31,419)
Proceeds from disposal of property, plant and equipment		187	25
Acquisition of remaining interest of a subsidiary	34	–	(30,000)
Advance to an associate		(4,024)	–
Interest received		618	301
Net cash used in investing activities		(127,898)	(61,093)
Cash flows from financing activities			
Proceeds from issue of shares	31(c)&(d)	28,485	184,705
Transaction costs attributable to issue of shares		(447)	(5,018)
Proceeds from bank loans and other borrowings		176,924	165,435
Repayment of bank loans and other borrowings		(190)	(106,563)
Proceeds from issue of convertible bonds		200,000	–
Interest paid on bank and other borrowings, loans from a shareholder and commitment fee		(99)	(5,857)
Interest element of finance lease rental payments		(186)	(230)
Capital element of finance lease rental payments		(1,188)	(1,113)
Net cash generated from financing activities		403,299	231,359
Net increase in cash and cash equivalents		93,372	17,886
Cash and cash equivalents at beginning of year		66,089	48,133
Effect of foreign exchange rate changes, net		3,700	70
Cash and cash equivalents at end of year		163,161	66,089
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the consolidated statement of financial position	23	163,161	66,089

The notes on pages 40 to 111 are an integral part of these consolidated financial statements.

Statement of Financial Position

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	17	6,172	6,172
Current assets			
Prepayments		326	176
Amounts due from subsidiaries	17	1,285,762	1,069,949
Cash and cash equivalents	23	16,004	10,397
Total current assets		1,302,092	1,080,522
LIABILITIES			
Current liabilities			
Accruals	25	1,702	1,584
Interest-bearing bank borrowings	26	1,240	1,430
Loans from a shareholder	30	–	14,640
Total current liabilities		2,942	17,654
Net current assets		1,299,150	1,062,868
Total assets less current liabilities		1,305,322	1,069,040

The notes on pages 40 to 111 are an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current liabilities			
Convertible bonds	28	22,620	42,070
Total non-current liabilities		22,620	42,070
Net assets		1,282,702	1,026,970
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	31	11,116	6,866
Share premium	32	749,281	523,467
Contributed surplus	32	503,119	503,119
Equity component of convertible bonds	32	51,274	15,064
Share options reserve	32	46,438	–
Accumulated losses	32	(78,526)	(21,546)
Total equity		1,282,702	1,026,970

The financial statements were approved by the Board of Directors on 27 March 2014 and were signed on its behalf.

Law Kee, Alice
Director

Hui Wai Lee, Willy
Director

The notes on pages 40 to 111 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 Corporate information

Cheung Wo International Holdings Limited (the "Company") was incorporated in Bermuda on 9 May 2001 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The registered office of the Company is located at Room 4101, 41st Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

The Company acts as an investment holding company. The principal activities of the Company and its subsidiaries (together, the "Group") consist of film distribution and licensing, film processing, rental of property, and property and hotel development.

These financial statements have been approved for issue by the Board of Directors on 27 March 2014.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

They have been prepared under the historical cost convention, except for an investment property which has been measured at fair value. The financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

As at 31 December 2013, the Group had total current liabilities including outstanding borrowings from banks and others of approximately HK$430,126,000 that would be due for repayment in the coming twelve months. As at the same date, the Group had cash and cash equivalents of approximately HK$163,161,000. In addition, the Group recorded a loss before tax of approximately HK$80,065,000 and had cash outflow from operating activities of approximately HK$182,029,000 for the year ended 31 December 2013.

2.1 Basis of preparation *(Continued)*

Management has prepared cash flow projections which cover a period of twelve months from the date of the statement of financial position. The directors of the Company have reviewed the Group's cash flow projections and are of the opinion that, taking into account the following measures and plans, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next twelve months from the date of the statement of financial position:

(i) On 5 March 2014, the Company completed a share placement of 214,200,000 ordinary shares of HK$0.01 each to independent parties at a placing price of HK$0.56 per placing share, resulting in a net placing proceeds of HK$120 million.

(ii) On 11 March 2014, the Company's subsidiary entered into a RMB250,000,000 entrusted loan agreement with a bank in the PRC which is interest bearing at the market rate and available for one year effective from the drawn date.

The directors closely monitor the Group's liquidity position and financial performance and have initiated measure to improve the Group's cash flows. These measures include raising additional capital and obtaining additional financing from banks and others. In the opinion of the directors, in light of the above, together with the anticipated cash flows from operations, the Group will have sufficient working capital to fulfil its financial obligations as and when they fall due in the coming twelve months from the date of the financial statements. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

(a) New standards and amendments to standards mandatory for the first time for the periods beginning 1 January 2013

Amendment to HKAS 1	Presentation of items of other comprehensive income
HKAS 19 (2011)	Employee benefits
HKAS 27 (2011)	Separate financial statements
HKAS 28 (2011)	Investments in associates and joint ventures
Amendment to HKFRS 1	Government loans
Amendment to HKFRS 7	Disclosure – Offsetting financial assets and financial liabilities
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: transition guidance
HKFRS 13	Fair value measurement
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine
Annual improvement project	Annual improvements 2009-2011 cycle

Notes to the Consolidated Financial Statements

2.1 Basis of preparation *(Continued)*

(a) New standards and amendments to standards mandatory for the first time for the periods beginning 1 January 2013 *(Continued)*

The adoption of these new standards and amendments to standards had no significant impact on these consolidated financial statements, except for the impact described below.

Amendment to HKAS 1, 'Presentation of items of other comprehensive income' shows that the main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' ("OCI") on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The Group has categorised "Exchange differences arising on translation of foreign operations" under "Items that may be reclassified to profit and loss" in the statement of comprehensive income.

HKFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The adoption of this standard did not have an impact on the Group except that certain new disclosures are introduced.

HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRS. The Group has adopted this standard, which additional disclosures required in respect of fair value measurements are introduced. The adoption of this standard has no significant impact on the Group's results and financial position, except that certain new disclosures are introduced.

Amendment to HKAS 36, 'Recoverable amount disclosures for non-financial assets', addresses the recoverable amount disclosures for non-financial assets. This amendment removes certain disclosures of the recoverable amount of cash-generating units ("CGUs") which has been included in HKAS 36 by the issue of HKFRS 13. The amendment is not mandatory for the Group until 1 January 2014, however the Group has decided to early adopt the amendment as of 1 January 2013.

There are no other new standards or amendments to standards that are effective for the first time for the financial year beginning on or after 1st January 2013 that are expected to have a material impact on the Group.

2.1 Basis of preparation *(Continued)*

(b) New standards, amendments and interpretation that have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted:

Amendment to HKAS 19 (2011)	Defined benefit plans: Employee contribution[2]
Amendment to HKAS 32	Presentation on asset and liability offsetting[1]
Amendment to HKFRS 10, HKFRS 12 and HKAS 27	Consolidation for investment entities[1]
Amendment to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
HK(IFRIC) – Int 21	Levies[1]
Annual improvements project	Annual improvements 2012 – 2013 cycle[2]

[1] Effective for annual periods beginning on 1 January 2014
[2] Effective for annual periods beginning on 1 July 2014
[3] Effective for annual periods beginning on 1 January 2015

The Group is in the process of making an assessment of the impact of adoption of the above new standards, amendments and interpretation that have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted, but is not yet in a position to state whether these new standards or amendments would have a significant impact on its results of operations and financial position.

2.2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Subsidiaries

Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Notes to the Consolidated Financial Statements

2.2 Summary of significant accounting policies *(Continued)*

(a) Subsidiaries *(Continued)*

Consolidation (Continued)

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 2.2 (f)).

2.2 Summary of significant accounting policies *(Continued)*

(a) Subsidiaries *(Continued)*

Consolidation (Continued)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners.

The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements

2.2 Summary of significant accounting policies *(Continued)*

(c) Associate

Associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in an associate includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of loss of an investment accounted for using equity method' in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate has been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains of losses on dilution of equity interest in an associate are recognised in the consolidated income statement.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified collectively as the board of directors that makes strategic decisions.

Notes to the Consolidated Financial Statements

2.2 Summary of significant accounting policies *(Continued)*

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

All foreign exchange gains and losses are presented in the consolidated income statement within 'finance income' or 'finance costs'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

(iii) Group companies

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each consolidated income statement are translated at average exchange rates; and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate. Exchange difference arising are recognised in other comprehensive income.

2.2 Summary of significant accounting policies *(Continued)*

(e) Foreign currency translation *(Continued)*

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

(f) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Notes to the Consolidated Financial Statements

2.2 Summary of significant accounting policies *(Continued)*

(g) Property, plant and equipment

Leasehold land classified as finance lease and all other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease	Over the lease terms
Buildings	2.5%
Furniture and fixtures	20%
Leasehold improvements	Over the shorter of the lease terms or 20%
Motor vehicles	10% – 25%
Plant, machinery and equipment	20% – $33^1/_3$%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.2(j)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all attributable costs of bringing the asset to working condition for its intended use. This includes direct costs of construction as well as interest expense capitalized during the period of construction and installation. Capitalisation of these costs will cease and the construction in progress is transferred to appropriate categories within property, plant and equipment when the construction activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress.

2.2 Summary of significant accounting policies *(Continued)*

(h) Land use rights

The up-front prepayments made for land use rights are expensed in the consolidated income statement on a straight-line basis over the periods of the land use rights. When there is impairment, the impairment is expensed in the consolidated income statement.

(i) Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated income statement.

(j) Impairment of non-financial assets

Goodwill is not subject to amortisation and is tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Financial assets

(i) Classification

The Group classifies its financial assets depending on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in currents assets, except for the amounts that are settled or expected to be settle more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'other receivables' and 'cash and cash equivalents' in the consolidated statement of financial position (note 2.2(q) and 2.2(r)).

2.2 Summary of significant accounting policies *(Continued)*

(k) Financial assets *(Continued)*

(ii) Recognition and measurement

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

(l) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(m) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

2.2 Summary of significant accounting policies *(Continued)*

(m) Impairment of financial assets *(Continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(n) Film rights and film production in progress

Perpetual film rights acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Costs of film rights represent the purchase price of the perpetual film rights and are amortised over the period of the expected income from distribution and licensing of video rights and other broadcasting rights following their release.

Film production in progress represents films and television series under production and is stated at production costs incurred to date, less accumulated impairment losses. Such production costs are carried forward as production in progress. Costs of films are transferred to film rights upon completion.

(o) Properties development in progress

Properties development in progress are stated at the lower of cost and net realisable value. The cost of properties development in progress comprises cost of land use rights, construction costs and borrowing costs capitalised and other direct costs attributable to the construction period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value is the estimated selling price at which the property can be realised less related expenses. Income from incidental operation is recognised in the consolidated income statement.

Properties development in progress are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

(p) Inventories

Inventories, mainly comprise materials used in film processing, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out (FIFO) method. Net realisable value is the estimated selling prices in the ordinary course of business, less applicable variable selling expenses.

2.2 Summary of significant accounting policies *(Continued)*

(q) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(r) Cash and cash equivalents

In consolidated statement of cash flows, cash and cash equivalents include cash in hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(s) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(t) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(u) Convertible bonds

Convertible bonds are mandatorily redeemable on a specific date. The fair value of the liability component of the convertible bond is determined using a market interest rate for an equivalent non-convertible bond. The liability component is subsequently stated at amortised cost until extinguished on conversion or maturity of the bonds. The residual amount, representing the value of the equity conversion component, is accounted for as a conversion option reserve included in shareholder's equity.

Upon conversion of convertible bonds to ordinary shares, the liability component and equity component of respective convertible bonds are reclassified to share capital and share premium. The interests on these convertible bonds are capitalised as construction in progress and property development in progress, respectively.

2.2 Summary of significant accounting policies *(Continued)*

(v) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(w) Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.

(x) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.2 Summary of significant accounting policies *(Continued)*

(x) Current and deferred income tax *(Continued)*

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associate, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(y) Employee benefits

The Group continues to operate various defined contribution pension plans including defined contribution scheme (the "Defined Contribution Scheme") and a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") for its employees in Hong Kong and a central pension scheme operated by the local municipal government in the People's Republic of China ("PRC") for those employees of the Group's subsidiaries.

(i) Pension obligations

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 if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2.2 Summary of significant accounting policies *(Continued)*

(y) Employee benefits *(Continued)*

(i) Pension obligations (Continued)

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iii) Employee leave entitlements

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 balance sheet date.

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

(iv) Share-based payments

Equity-settled share-based payment transactions

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

2.2 Summary of significant accounting policies *(Continued)*

(y) Employee benefits *(Continued)*

(iv) Share-based payments (Continued)

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(z) Revenue recognition

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

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) from the production and distribution of films, when the production is completed and the film has been released, and distributed to the cinema circuit and the amount can be measured reliably, which is generally when the cinema circuit confirms to the Group its share of box office receipts;

(iii) from the licensing of the distribution and broadcasting rights over films and television series, when the Group's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon delivery of the film negatives to the customers;

(iv) from the provision of film processing services, when the services are provided;

(v) rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease;

2.2 Summary of significant accounting policies *(Continued)*

(z) Revenue recognition *(Continued)*

(vi) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(vii) dividend income, when the shareholder's right to receive payment has been established.

(aa) Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(bb) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

(cc) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

(dd) Financial guarantee contracts

Financial guarantee contracts under which the Group accepts significant risk from a third party by agreeing to compensate that party on the occurrence of a specified uncertain future event are accounted for in a manner similar to insurance contracts. Provisions are recognised when it is probable that the Group has obligations under such guarantees and an outflow of economic resources will be required to settle the obligations.

3 Significant accounting estimates and assumptions

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

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 addressed below.

(a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy set out in note 2.2(f).

The recoverable amount of an asset or a cash-generating unit has been determined based on its fair value less cost to sell or value-in-use calculations. These calculations require the use of estimates (note 16).

The fair value less cost to sell or value-in-use calculations primarily use cash flow projections based on financial budgets, in general covered five years, approved by management and estimated terminal values at the end of the five-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected operating margin, growth rates and selection of discount rates, to reflect the risks-involved and the earnings multiple that can be realised for the estimated terminal value.

Management prepared the financial budgets reflecting actual performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the result of the impairment reviews.

(b) Estimation of fair value of an investment property

The fair value of investment properties is determined by using income capitalisation valuation approach. Details of the judgement and assumptions have been disclosed in note 15.

(c) Useful lives and depreciation of property, plant and equipment

Management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions and with reference to the industry practices. It may also change significantly as a result of technical innovations and competitor actions in response to industry cycles.

Management will increase the depreciation charges where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Notes to the Consolidated Financial Statements

3 Significant accounting estimates and assumptions *(Continued)*

(d) Estimated impairment of property, plant and equipment and land use rights

The Group assesses annually whether property, plant and equipment and land use rights have any indication of impairment. The recoverable amounts, if required, are determined based on value- in-use calculations or market valuations. These calculations require the use of judgement and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and affecting future cash flow projections, it may be necessary to take an impairment charge to the consolidated income statement.

(e) Net realisable value of properties development in progress

The Group writes down properties development in progress to net realisable value based on assessment of the realisability of properties development in progress which takes into account cost to completion based on management's experience and net sales value based on prevailing market conditions. If there is an increase in cost to completion or a decrease in net sales value, the net realisable value will decrease which may result in writing down properties development in progress to net realisable value. Write-downs are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value of properties development in progress is adjusted in the period in which such estimate is changed.

(f) Impairment of trade receivables

Management regularly reviews the recoverability and/or ageing of trade receivables. Appropriate impairment for estimated irrecoverable amounts is recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flows expected to receive discounted using the original effective interest rate and their carrying value.

3 Significant accounting estimates and assumptions *(Continued)*

(g) Impairment of an investment accounted for using the equity method

Management regularly reviews the recoverability of the Group's investment accounted for using the equity method, in particular, the investment in an associate. Management considers objective evidence of impairment exists, such as a significant or prolonged decline in the fair value of the investment in an associate, significant adverse changes in the market environment and customers' taste to the film production in progress held by the associate.

Appropriate impairment for estimated irrecoverable amounts is recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

The recoverable amount of the investment in an associate is the higher of its value-in-use and fair value less costs to sell. In determining value-in-use, an entity estimates either: (a) its share of the present value of the estimated future cash flows expected to be generated by the associate and proceeds on disposal, or (b) the present value of estimated future cash flows expected to arise from dividends to be received and proceeds on disposal. Any impairment loss is recognised by writing down the investment accounted for using the equity method.

(h) Income taxes

The Group is subject to income taxes mainly in statutory jurisdictions of Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Notes to the Consolidated Financial Statements

4 Segment information

For management purposes, the Group is organised into four business units – property rental, film distribution and licensing, film processing and property and hotel development.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment (loss) profit, which is a measure of adjusted (loss) profit before income tax. The (loss) profit before income tax is measured consistently with the Group's (loss) profit before income tax except that finance income, finance costs, as well as head office and corporate expenses, and certain other income are excluded from such measurement.

Segment assets exclude cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude obligations under finance leases and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2013

	Property rental HK$'000	Film distribution and licensing HK$'000	Film processing HK$'000	Property and hotel development HK$'000	Total HK$'000
Segment revenue:					
External revenue	21,187	3,235	2,379	–	26,801
Total revenue	21,187	3,235	2,379	–	26,801
Segment results	(3,394)	(11,992)	(3,864)	(6,418)	(25,668)
Unallocated corporate expenses					(54,752)
Finance income					640
Finance costs					(285)
Loss before income tax					(80,065)
Income tax expense					14,489
Loss for the year					(65,576)

4 Segment information *(Continued)*

As at 31 December 2013

	Property rental HK$'000	Film distribution and licensing HK$'000	Film processing HK$'000	Property and hotel development HK$'000	Unallocated HK$'000	Total HK$'000
Assets and liabilities						
Segment assets	354,901	73,080	2,818	1,903,345	168,484	2,502,628
Segment liabilities	65,123	7,578	1,261	916,568	5,958	996,488
Other segment information:						
Capital expenditure	2,966	741	146	132,667	–	136,520
Depreciation	464	440	1,050	644	1,596	4,194

Year ended 31 December 2012

	Property rental HK$'000	Film distribution and licensing HK$'000	Film processing HK$'000	Property and hotel development HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue:						
External revenue	13,926	13,475	7,412	–	–	34,813
Inter-segment revenue	–	–	123	–	(123)	–
Total revenue	13,926	13,475	7,535	–	(123)	34,813
Segment results	15,174	(27,752)	(6,176)	(4,590)	–	(23,344)
Unallocated corporate expenses						(2,755)
Finance income						883
Finance costs						(5,717)
Loss before income tax						(30,933)
Income tax credit						13,590
Loss for the year						(17,343)

Notes to the Consolidated Financial Statements

4 Segment information *(Continued)*

As at 31 December 2012

	Property rental HK$'000	Film distribution and licensing HK$'000	Film processing HK$'000	Property and hotel development HK$'000	Unallocated HK$'000	Total HK$'000
Assets and liabilities						
Segment assets	359,748	74,550	5,534	1,237,400	72,398	1,749,630
Segment liabilities	78,177	7,419	1,119	412,477	21,918	521,110
Other segment information:						
Capital expenditure	4	724	1,504	36,562	–	38,794
Depreciation	332	1,259	487	415	1,596	4,089

(a) Geographical information

2013

	Hong Kong HK$'000	**Mainland China HK$'000**	**Others HK$'000**	**Total HK$'000**
Revenue	**2,808**	**21,187**	**2,806**	**26,801**
Non-current assets	**80,168**	**1,140,392**	**–**	**1,220,560**
Capital expenditure	**887**	**135,633**	**–**	**136,520**

2012

	Hong Kong HK$'000	Mainland China HK$'000	Others HK$'000	Total HK$'000
Revenue	10,754	21,002	3,057	34,813
Non-current assets	78,354	992,413	–	1,070,767
Capital expenditure	2,228	36,566	–	38,794

Notes to the Consolidated Financial Statements

4 Segment information *(Continued)*

(b) Information about major customers

Revenue of HK$14,117,000 (2012: HK$8,073,000) and HK$3,897,000 (2012:HK$2,132,000) were derived from two individual tenants of property rental segment.

5 Revenue and other income

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and rental income received and receivable from its investment property less business tax during the year.

An analysis of revenue and other income is as follows:

	2013 HK$'000	2012 HK$'000
Revenue		
Property rental income (note 15(a))	21,187	13,926
Film distribution and licensing income	3,235	13,475
Film processing income	2,379	7,412
	26,801	34,813
Other income		
Net compensation received relating to termination of tenancy agreements (note 15(a))	230	8,973
Write-back of deposits received	–	307
Scrap sales	–	605
Others	902	1,297
	1,132	11,182

Notes to the Consolidated Financial Statements

6 Finance income and costs

An analysis of finance income and costs is as follows:

	2013 HK$'000	2012 HK$'000
Finance costs:		
Interest on bank borrowings wholly repayable within five years	14,643	58
Interest on bank borrowings not wholly repayable within five years	–	2,275
Interest on loans from a shareholder	48	146
Interest on finance leases	186	230
Interest on other borrowings	4,702	13,290
Interest on convertible bonds (note 28)	4,209	3,026
	23,788	19,025
Less: amounts capitalised on qualifying assets	(23,503)	(13,308)
Total finance costs	285	5,717
Finance income:		
Interest income on short-term bank deposits	(618)	(301)
Foreign exchange difference, net	(22)	(582)
Total finance income	(640)	(883)
Net finance (income) costs	(355)	4,834

Borrowing costs of the loans used to finance the property and hotel development projects of the Group have been capitalised at a capitalisation rate of 99% during the year (2012: 70%).

Notes to the Consolidated Financial Statements

7 Expenses by nature

	2013 HK$'000	2012 HK$'000
Employee benefit expenses (excluding directors' remuneration – note 8):		
Wages and salaries	**10,805**	12,772
Pension costs – defined contribution plans and social security costs	**508**	666
Share options granted to employees	**33,170**	–
	44,483	13,438
Directors' remuneration (note 8)	**15,581**	1,957
Auditors' remuneration	**1,844**	1,828
Depreciation (note 13)	**4,194**	4,089
Cost of inventories recognised as expenses[1]	**1,739**	32,369
Operating lease rentals in respect of buildings	**6,363**	5,710
Direct operating expenses from property that generated rental income (note 15(a))	**3,225**	2,420
Reversal of provision for impairment of trade receivables (note 21)	**(588)**	(79)
Uncollectible trade receivables recovered	**(5)**	(161)
Professional fees	**6,693**	5,068
(Gain) loss on disposal of property, plant and equipment	**(187)**	130
Others	**6,186**	5,267
Total cost of sales and administrative expenses	**89,528**	72,036

1 The cost of inventories recognised as expenses for the year is included in "Cost of sales" on the face of the consolidated income statement.

Notes to the Consolidated Financial Statements

8 Directors' and chief executive's emoluments and five highest paid individuals

(a) Directors' and chief executive's emoluments

Directors' and chief executive's emoluments for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2013 HK$'000	2012 HK$'000
Fees	312	312
Other emoluments:		
Salaries, allowances and benefits in kind	1,871	1,539
Pension costs – defined contribution plans	130	106
Share options granted to directors	13,268	–
	15,581	1,957

2013

Name	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employer's contribution to pension scheme HK$'000	Share options granted HK$'000	Total remuneration HK$'000
Executive directors:					
Mr. Jin Lei	–	500	34	6,634	7,168
Ms. Law Kee, Alice	–	1,202	83	6,634	7,919
Mr. Hui Wai Lee, Willy	–	169	13	–	182
	–	1,871	130	13,268	15,269
Independent non-executive directors:					
Mr. Tsui Pui Hung	120	–	–	–	120
Mr. Tang Ping Sum	96	–	–	–	96
Mr. Chu To, Jonathan	96	–	–	–	96
	312	–	–	–	312
	312	1,871	130	13,268	15,581

Notes to the Consolidated Financial Statements

8 Directors' and chief executive's emoluments and five highest paid individuals *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

2012

Name	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employer's contribution to pension scheme HK$'000	Share options granted HK$'000	Total remuneration HK$'000
Executive directors:					
Mr. Jin Lei	–	538	31	–	569
Ms. Law Kee, Alice	–	832	62	–	894
Mr. Hui Wai Lee, Willy	–	169	13	–	182
	–	1,539	106	–	1,645
Independent non-executive directors:					
Mr. Tsui Pui Hung	120	–	–	–	120
Mr. Tang Ping Sum	96	–	–	–	96
Mr. Chu To, Jonathan	96	–	–	–	96
	312	–	–	–	312
	312	1,539	106	–	1,957

There were no arrangements under which a director waived or agreed to waive any remuneration during the year ended 31 December 2013 and 2012.

8 Directors' and chief executive's emoluments and five highest paid individuals *(Continued)*

(b) Emoluments of five-highest paid individuals

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

	2013 HK$'000	2012 HK$'000
Salaries, allowances and benefits in kind	2,048	1,946
Pension costs – defined contribution plans	70	41
Share options granted to employees	19,902	–
	22,020	1,987

The emoluments of the three (2012: three) individuals with the highest emoluments are within the following bands:

	Number of individuals	
Emolument bands (in HK dollar)	**2013**	2012
Nil – HK$1,000,000	–	2
HK$1,000,001 – HK$1,500,000	–	1
HK$7,500,001 – HK$8,000,000	3	–

Notes to the Consolidated Financial Statements

9 Income tax credit

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the year.

The applicable tax rate for the Group's operation in the Mainland China is 25%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2013 HK$'000	2012 HK$'000
Current tax – Hong Kong		
Charge for the year	39	7
(Over) under provision in prior years	(1)	20
Current tax – PRC		
Charge for the year	–	3,468
Overprovision in prior years	(6,294)	(140)
Total current tax	(6,256)	3,355
Deferred tax (note 29)	(8,233)	(16,945)
Total tax credit	(14,489)	(13,590)

Notes to the Consolidated Financial Statements

9 Income tax credit *(Continued)*

A reconciliation of the income tax credit applicable to loss before income tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the income tax credit is as follows:

	2013 HK$'000	2012 HK$'000
Loss before income tax	(80,065)	(30,933)
Tax at the statutory tax rates	(14,035)	(4,123)
Tax effects of:		
– Expenses not deductible for tax purposes	8,174	1,856
– Income not subject to tax	(390)	(1,304)
– Tax losses for which no deferred income tax asset was recognised	6,115	8,639
– Associate's results reported net of tax	3	10
Overprovision in prior years	(6,295)	(120)
Temporary difference not recognised	(12)	–
Recognition of previously unrecognised temporary differences	76	–
Utilisation of tax loss	(3,069)	–
Recognition of previously unrecognised deferred tax assets relating to tax loss	(5,511)	
Release of deferred income tax liabilities relating to temporary differences	–	(20,802)
Recognition of deferred income tax liabilities relating to land appreciation tax	455	1,269
Others	–	985
Total tax credit	(14,489)	(13,590)

The weighted average applicable tax rate was 17.5% (2012: 13.3%).

10 Loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company for the year ended 31 December 2013 includes a loss of HK$56,980,000 (2012: loss of HK$5,470,000) which has been dealt with in the financial statements of the Company (note 32).

11 Dividends

No dividend was paid or proposed during the years ended 31 December 2013 and 2012, nor has any dividend been proposed since the end of the reporting period.

12 Loss per share attributable to equity holders of the Company

The calculation of basic loss per share amount is based on the loss for the year of HK$65,576,000 (2012: HK$17,422,000), attributable to equity holders of the Company, and the weighted average number of ordinary shares of 959,291,000 (2012: 588,907,000) in issue during the year.

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2013 HK$'000	2012 HK$'000
Loss attributable to equity holders of the Company	**(65,576)**	(17,422)
Weighted average number of ordinary shares in issue (thousands)	**959,291**	588,907

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares, and the net loss is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have issued assuming the exercise of the share options.

Potential ordinary shares arising from the assumed conversion of convertible bonds and share options have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the current reporting period presented.

Notes to the Consolidated Financial Statements

13 Property, plant and equipment

	Group						
	Construction in progress HK$'000	**Leasehold land and buildings** HK$'000	**Furniture and fixtures** HK$'000	**Leasehold improvements** HK$'000	**Motor vehicles** HK$'000	**Plant, machinery and equipment** HK$'000	**Total** HK$'000
At 1 January 2012							
Cost	26,543	1,100	6,482	4,975	12,706	22,933	74,739
Accumulated depreciation	–	(291)	(5,916)	(3,544)	(1,985)	(21,559)	(33,295)
Net carrying amount	26,543	809	566	1,431	10,721	1,374	41,444
Year ended 31 December 2012							
Opening net carrying amount	26,543	809	566	1,431	10,721	1,374	41,444
Additions	44,206	–	202	651	1,464	737	47,260
Disposals/write-off	–	–	(93)	–	–	(62)	(155)
Depreciation	–	(27)	(194)	(1,016)	(2,376)	(476)	(4,089)
Exchange realignment	18	–	–	–	–	–	18
Closing carrying amount	70,767	782	481	1,066	9,809	1,573	84,478
At 31 December 2012							
Cost	70,767	1,100	1,831	4,020	14,170	10,760	102,648
Accumulated depreciation	–	(318)	(1,350)	(2,954)	(4,361)	(9,187)	(18,170)
Net carrying amount	70,767	782	481	1,066	9,809	1,573	84,478
Year ended 31 December 2013							
Opening net carrying amount	70,767	782	481	1,066	9,809	1,573	84,478
Additions	140,881	–	308	2,665	1,070	232	145,156
Depreciation	–	(28)	(160)	(876)	(2,545)	(585)	(4,194)
Exchange realignment	1,904	–	3	6	76	3	1,992
Closing carrying amount	213,552	754	632	2,861	8,410	1,223	227,432
At 31 December 2013							
Cost	213,552	1,100	2,146	6,710	14,934	8,459	246,901
Accumulated depreciation	–	(346)	(1,514)	(3,849)	(6,524)	(7,236)	(19,469)
Net carrying amount	213,552	754	632	2,861	8,410	1,223	227,432

13 Property, plant and equipment *(Continued)*

Depreciation expense of HK$4,194,000 (2012: HK$4,089,000) has been charged in 'administrative expenses'.

Construction in progress as at 31 December 2013 mainly comprised hotel units being constructed in the PRC.

During the year, the Group capitalised borrowing costs amounting to HK$17,037,000 (2012: HK$7,191,000) on qualifying assets within construction in progress.

At 31 December 2013, two motor vehicles (2012: two) were held under finance leases as follows:

	2013 HK$'000	2012 HK$'000
Cost	8,693	8,693
Accumulated depreciation	(3,707)	(1,969)
Net carrying amount	4,986	6,724

The Group leases vehicles under non-cancellable finance lease agreements. The lease terms are between 3 and 4 years, and ownership of the assets lie within the Group.

The net carrying amount of the Group's interests in leasehold land classified as finance lease and buildings are analysed as follows:

	2013 HK$'000	2012 HK$'000
In Hong Kong, held on leases of:		
Between 10 to 50 years	754	782

At 31 December 2013, the Group's leasehold land classified as finance lease and buildings with a net carrying amount of HK$754,000 (2012: HK$782,000) were pledged to secure banking facilities granted to the Group (note 37).

Notes to the Consolidated Financial Statements

14 Land use rights

The Group's interests in land use rights represented prepaid operating lease payments and their net carrying amount are analysed as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
In the PRC, held on leases of:		
Between 10 to 50 years	**317,548**	317,856
At 1 January	**317,856**	326,055
Amortisation of land use right	**(8,636)**	(8,466)
Exchange realignment	**8,328**	267
At 31 December	**317,548**	317,856

During the year, the Group capitalised amortisation of land use rights amounted to HK$8,636,000 (2012: HK$8,466,000) on qualifying assets within construction in progress.

At 31 December 2013, the Group's land use rights with a net carrying amount of HK$317,548,000, (2012: HK$317,856,000) was pledged to secure banking facilities granted to the Group (note 37).

15 Investment property

	Group	
	2013	2012
	HK$'000	HK$'000
At fair value		
At 1 January	**352,130**	351,827
Fair value loss adjustment	**(18,809)**	–
Exchange realignment	**9,153**	303
At 31 December	**342,474**	352,130

15 Investment property *(Continued)*

(a) Amounts recognised in the consolidated income statement for investment property

	2013 HK$'000	2012 HK$'000
Rental income (note 5)	**21,187**	13,926
Net compensation received relating to termination of tenancy agreements (note 5)	**230**	8,973
Direct operating expenses from property that generated rental income (note 7)	**(3,225)**	(2,420)
	18,192	20,479

As at 31 December 2013, the Group had no unprovided contractual obligations for future repairs and maintenance (2012: Nil).

(b) Valuation basis

The Group's investment property is situated at No. 19, Yongling Road, Jinniu District, Chengdu City, Sichuan Province, the PRC.

An independent valuation of the Group's investment property was performed by the valuer, RHL Appraisal Limited, to determine the fair value of the investment property as at 31 December 2013 and 2012. The revaluation gains or losses are included in "fair value loss on an investment property" in the income statement. The following table analyses the investment property carried at fair value, by valuation method.

Fair value hierarchy

Description	**Fair value measurements at 31 December 2013 using significant unobservable inputs (Level 3)** HK$'000
Recurring fair value measurements	
Investment property:	
– Shopping mall – PRC	342,474

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

There were no transfers between Levels 1, 2 and 3 during the year.

Notes to the Consolidated Financial Statements

15 Investment property *(Continued)*

(b) Valuation basis *(Continued)*

Fair value measurements using significant unobservable inputs (Level 3)

	Shopping mall-PRC HK$'000
Opening balance	352,130
Fair value loss adjustment	(18,809)
Exchange realignment	9,153
Closing balance	342,474
Total gains or losses for the year included in profit or loss for assets held at the end of the year, under 'Fair value loss on an investment property'	18,809
Change in unrealised losses for the year included in profit or loss for assets held at the end of the year	18,809

Valuation processes of the group

The Group's investment property was valued at 31 December 2013 by independent professionally qualified valuer who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment property valued. The current use of the investment property equates to the highest and best use.

The Group's financial controller reviews the valuations performed by the independent valuer for financial reporting purposes. Discussions of valuation processes and results are held between the financial controller and valuer at least once every six months, in line with the Group's interim and annual reporting dates. The board of directors also reviews the valuation results twice a year. As at 31 December 2013, the fair value of the property has been determined by RHL Appraisal Limited.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assess property valuations movements when compared to the prior year valuation report; and
- Holds discussions with the independent valuer.

Changes in Level 2 and 3 fair values are analysed at each reporting date during the semi-annual valuation discussions between the financial controller and the valuer. As part of this discussion, the team presents a report that explains the reasons for the fair value movements.

15 Investment property *(Continued)*

(b) Valuation basis *(Continued)*

Valuation techniques

For the shopping mall in the PRC, the valuation was based on income capitalisation approach (term and reversionary method) which largely involves observable inputs (e.g. market rent, yield, etc) and taking into account the significant adjustment on yields to accounts for the security of the existing tenancies, and the risks upon reversionary and the estimation in vacancy rate after expiry of current lease.

There were no changes to the valuation technique during the year.

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	**Fair value at 31 December 2013** (HK$'000)	**Valuation technique**	**Unobservable inputs**	**Range of unobservable inputs**	**Relationship of unobservable inputs to fair value**
Shopping mall – PRC	325,287	Income approach (term and reversionary method)	Term yield	2.5%-4%	The higher the term yield, the lower the fair value
			Reversionary yield	5%	The higher the reversionary yield, the lower the fair value
			Market unit rent	RMB105-200 per sq. m.	The higher the market unit rent, the higher the fair value

(c) The net carrying amount of the Group's investment property is analysed as follows:

	2013 **HK$'000**	2012 HK$'000
In the PRC, held on leases of:		
Between 10 to 50 years	**342,474**	352,130

16 Goodwill

The movements of goodwill during the year are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**194,453**	194,285
Exchange realignment	**5,136**	168
At 31 December	**199,589**	194,453

Impairment test for goodwill

Goodwill is primarily attributable to the property and hotel development business of the Group. Management has completed its annual impairment test for goodwill by comparing the recoverable amount of the property and hotel development business to its carrying amount as at the reporting date. The recoverable amount is determined based on value-in-use calculation. These assessments use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

Management determined budgeted gross margins for the property development and sales business based on the current performance of the property market nearby and their expectations of the market development. Management determined budgeted gross margins of the hotel management business based on their experience in the hotel industry in the PRC and their expectations for the development in the area that the hotel locates. Future cash flows are discounted at a rate of approximately 12%.

The directors are of the view that there was no evidence of impairment of goodwill as at 31 December 2013 arising from the review.

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. A reasonably possible change in key assumptions used in the impairment test for goodwill would not cause the carrying amount to exceed its respective recoverable amount.

Notes to the Consolidated Financial Statements

17 Investments in subsidiaries

	Company	
	2013	2012
	HK$'000	HK$'000
Unlisted shares, at cost	**6,172**	6,172

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries of the Company at 31 December 2013 and 2012 are as follows:

Name of subsidiary	Place of incorporation/ operations and kind of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Percentage of equity attributed to the Company		Principal activities
			2013	2012	
Adore Capital Limited	British Virgin Islands ("BVI")/Hong Kong, limited liability company	United States dollars ("US$") 1	**100**	100	Investment holding
Brilliant Field Corporation Limited	Hong Kong, limited liability company	HK$1	**100**	100	Investment holding
Mandarin Films Limited	Hong Kong, limited liability company	HK$1	**100**	100	Production and distribution of films and provision of management services
Grimston Limited	BVI/Hong Kong, limited liability company	US$10,000	**100**	100	Investment holding
Handful Cotton (Piecegoods) Company Limited	Marshall/Hong Kong, limited liability company	US$1	**100**	100	Investment holding
Paramount Universal Limited	Hong Kong, limited liability company	HK$1	**100**	100	Investment holding

Notes to the Consolidated Financial Statements

17 Investments in subsidiaries *(Continued)*

Name of subsidiary	Place of incorporation/ operations and kind of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Percentage of equity attributed to the Company 2013	2012	Principal activities
Mandarin Films Distribution Company Limited	Hong Kong, limited liability company	HK$20 ordinary shares and HK$10,000,000 non-voting deferred shares (note)	100	100	Distribution of films produced or purchased by the Group
Mandarin Laboratory Limited	Hong Kong, limited liability company	HK$10,000	100	100	Investment holding
Mandarin Laboratory (International) Limited	Hong Kong, limited liability company	HK$1,000,000	100	100	Film processing
Mandarin Films Library Limited	Hong Kong, limited liability company	HK$1	100	100	Films licensing
Cheung Wo (Hunan) Property Limited	BVI/Hong Kong, limited liability company	US$1	100	100	Investment holding
Sino Step Inc.	BVI/Hong Kong, limited liability company	US$1	100	100	Investment holding
Walsbo Limited	Hong Kong, limited liability company	HK$2 ordinary shares and HK$9,800 non-voting deferred shares (note)	100	100	Investment holding
Profit Source International Limited	Hong Kong, limited liability company	HK$1	100	100	Investment holding
成都中發黃河實業有限公司^ (Chengdu Zhongfa Real Estate Development Co. Ltd.) (“Chengdu Zhongfa”)	PRC, limited liability company	Renminbi (“RMB”) 176,000,000	100	100	Property holding

Notes to the Consolidated Financial Statements

17 Investments in subsidiaries *(Continued)*

Name of subsidiary	Place of incorporation/ operations and kind of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Percentage of equity attributed to the Company		Principal activities
			2013	2012	
Prosper China Limited	BVI/Hong Kong, limited liability company	US$100	100	100	Investment holding
北京東方新青年文化發展有限公司^	PRC, limited liability company	US$1,250,000	100	100	Distribution of films produced by the Group
湖南九華國際新城開發建設有限公司^(Hunan Jiuhua International City Development Construction Company Limited) ("Hunan Jinhua")	PRC, limited liability company	RMB255,000,000	100	100	Property development
湖南九華東方酒店有限公司^ (Hunan Jiuhua Dong Fang Hotel Company Limited) ("Dong Fang Hotel")	PRC, limited liability company	RMB100,000,000	100	100	Hotel development

Note: The deferred shares practically carry no rights to dividends or to receive notice to attend or vote at any general meeting of the Company or to participate in any distribution on winding up.

^ *Chengdu Zhongfa, Hunan Jiuhua, Dong Fang Hotel and 北京東方新青年文化發展有限公司 are registered as wholly-foreign-owned enterprises under the PRC law.*

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

The Company directly holds the interests in Adore Capital Limited, Grimston Limited and Cheung Wo (Hunan) Property Limited. All other interests shown above are indirectly held.

Notes to the Consolidated Financial Statements

18 Investment accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Associate		
Share of net deficit	**(213)**	(197)
Loans to an associate	**70,201**	66,177
At 31 December	**69,988**	65,980

The loans to an associate are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these loans are considered as quasi-equity investment in the associate.

The amounts recognised in the consolidated income statement are as follows:

	2013	2012
	HK$'000	HK$'000
Share of loss	**16**	58

Set out below is the associate of the Group as at 31 December 2013, which, in the opinion of the directors, are material to the Group. The associate as listed below has share capital consisting solely of ordinary shares, which are held directly by the Group.

Nature of investment in associate as at 31 December 2013 and 2012

Name of entity	**Place of incorporation/ operations and kind of legal entity**	**Particulars of issued share capital**	**Percentage of ownership interest held indirectly**	**Principal activity**
Talent Films Limited ("Talent Films")	Hong Kong, limited liability company	10,000 ordinary shares of HK$1 each	35	Production and distribution of film

The Company's voting power held and profit sharing arrangement in relation to Talent Films is 35%.

There are no contingent liabilities relating to the Group's interest in the associate.

Notes to the Consolidated Financial Statements

18 Investment accounted for using the equity method *(Continued)*

Summarised financial information for associate

Set out below are the summarised financial information for Talent Films Limited which is accounted for using the equity method.

Summarised statement of financial position

	2013 HK$'000	2012 HK$'000
Current		
Cash and cash equivalents	1,105	1,210
Other current assets (excluding cash)	265,588	–
Total current assets	266,693	1,210
Other current liabilities	(12,407)	(11,847)
Total current liabilities	(12,407)	(11,847)
Non-current		
Assets	–	187,843
Other liabilities	(254,893)	(177,769)
Total non-current (liabilities) assets	(254,893)	10,074
Net liabilities	(607)	(563)

Summarised statement of comprehensive income

	2013 HK$'000	2012 HK$'000
Revenue	–	–
Legal & Professional fee	(2)	(123)
Other expenses	(42)	(43)
Loss before income tax	(44)	(166)
Income tax expense	–	–
Loss and total comprehensive loss	(44)	(166)

The information above reflects the amounts presented in the financial statements of the associate (and not Cheung Wo International Holdings Limited's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Notes to the Consolidated Financial Statements

18 Investment accounted for using the equity method *(Continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associate:

Summarised financial information

	2013 HK$'000	2012 HK$'000
Opening net liabilities at 1 January	(563)	(397)
Loss and total comprehensive loss	(44)	(166)
Closing net liabilities at 31 December	(607)	(563)
Interest in an associate (35%)	(213)	(197)
Loan to an associate	70,201	66,177
Carrying value	69,988	65,980

19 Properties development in progress

	Group	
	2013 HK$'000	2012 HK$'000
At 1 January	441,821	428,867
Additions	549,924	12,589
Exchange realignment	11,466	365
At 31 December	1,003,211	441,821
Properties development in progress comprise:		
Land use right	928,770	415,789
Construction costs and capitalised expenditures	51,675	9,984
Finance costs capitalised	22,766	16,048
	1,003,211	441,821
Amounts are expected to be completed:		
Within the normal operating cycle included under current assets	1,003,211	441,821

19 Properties development in progress *(Continued)*

The properties development in progress consisted of land use rights:

	2013 HK$'000	2012 HK$'000
In the PRC, held on leases of:		
Over 50 years	**928,770**	415,789

20 Inventories

	Group	
	2013 HK$'000	2012 HK$'000
Raw materials	**5**	473
Work in progress	**–**	1
	5	474

21 Trade receivables

	Group	
	2013 HK$'000	2012 HK$'000
Trade receivables	**8,395**	12,883
Less: provision for impairment of trade receivables	**(258)**	(846)
Trade receivables – net	**8,137**	12,037

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 to 120 days. Before accepting any new customers, the Group uses an internal credit assessment process to assess the potential customers' credit quality and defines credit limits by customers. Credit limits attributed to customers are reviewed regularly.

Notes to the Consolidated Financial Statements

21 Trade receivables *(Continued)*

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2013	2012
	HK$'000	HK$'000
0 – 90 days	**5,943**	7,211
91 – 180 days	**2,144**	3,683
181 – 365 days	**50**	525
Over 1 year	**–**	618
	8,137	12,037

Ageing of trade receivables which are past due but not impaired is as follows:

	2013	2012
	HK$'000	HK$'000
0 – 90 days	**261**	1,000
91 – 180 days	**82**	301
More than 180 days	**31**	431
	374	1,732

As at 31 December 2013, trade receivables of HK$374,000 (2012: HK$1,732,000) were past due but not impaired relate to customers that have good track records with the Group. Management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Notes to the Consolidated Financial Statements

21 Trade receivables *(Continued)*

Movements in the provision for impairment of trade receivables are as follows:

	2013 HK$'000	2012 HK$'000
At 1 January	846	925
Reversal of provision for impairment of trade receivables (note 7)	(588)	(79)
At 31 December	258	846

The impairment loss recognised on trade receivables is mainly for customers who have financial difficulties.

At 31 December 2013, trade receivables of HK$258,000 (2012: HK$846,000) were individually determined to be impaired. The individually impaired trade receivables relate to receivables which are expected not to be recoverable or only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The carrying amounts of the trade receivables are denominated in the following currencies:

	2013 HK$'000	2012 HK$'000
HK$	503	1,886
RMB	7,634	9,935
US$	–	216
	8,137	12,037

Notes to the Consolidated Financial Statements

22 Other receivables, prepayments and deposits paid

		Group	
		2013	2012
	Note	**HK$'000**	HK$'000
Other receivables		**2,149**	495
Prepayments	(i)	**18,708**	20,917
Deposit for land	(ii)	**–**	141,593
Deposit for construction costs		**147,464**	48,443
Others		**2,505**	2,219
Carrying amount at 31 December		**170,826**	213,667
Current portion		**(107,485)**	(157,899)
Non-current portion		**63,341**	55,768

(i) The balance includes an amount of HK$18,142,000 (2012: HK$20,548,000) of interest prepaid to a PRC bank.

(ii) At 31 December 2012, the balance represented a deposit paid to acquire a piece of land in Hunan for property development purposes. The balance had been subsequently utilised in the current year.

None of the other receivables is either past due or impaired. Other receivables included in the above balances had no recent history of default.

23 Cash and cash equivalents

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**163,161**	65,227	**16,004**	10,397
Short-term bank deposits	**–**	862	**–**	–
	163,161	66,089	**16,004**	10,397

At 31 December 2013, cash and bank balances of the Group denominated in RMB amounted to HK$131,145,000 (2012: HK$45,002,000). RMB is not freely convertible into the other currencies, however, under Mainland China's Foreign Exchange Control Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

At 31 December 2012, the effective interest rate on short-term bank deposits was 1.35% per annum where the deposits had maturities of 7 days.

The carrying amount of the cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**27,779**	19,130	**15,833**	10,035
RMB	**131,145**	45,002	**161**	355
US$	**3,830**	1,830	**10**	7
Others	**407**	127	**–**	–
	163,161	66,089	**16,004**	10,397

Notes to the Consolidated Financial Statements

24 Trade and land payables

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
0 – 90 days	**10,849**	6,418

Included in trade and land payables, HK$334,473,000 represented a payable to the Hunan Province government of the PRC for acquiring certain land use rights in Xiangtan, Hunan.

The carrying amount of the Group's trade and land payables are denominated in the following currencies:

	2013	2012
	HK$'000	HK$'000
HK$	**60**	112
RMB	**345,262**	6,306
	345,322	6,418

25 Other payables, accruals and deposits received

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**8,605**	9,858	**–**	–
Accruals	**3,760**	2,954	**386**	1,584
Accrued interest expense	**12,339**	13,721	**1,317**	–
Deposits in advance	**714**	690	**–**	–
	25,418	27,223	**1,703**	1,584

26 Interest-bearing bank and other borrowings

	Effective contractual interest rate %	Maturity	Group 2013 HK$'000	Group 2012 HK$'000	Company 2013 HK$'000	Company 2012 HK$'000
Current						
Bank loan – secured (note i)	3.75	On demand	1,240	1,430	1,240	1,430
Bank loan – secured (note iii)	8.33	2014-2018	25,275	–	–	–
Other borrowings – unsecured (note ii)	15	April 2014	31,594	30,781	–	–
			58,109	32,211	1,240	1,430
Non-current						
Bank loan – secured (note iii)	8.33	2014-2018	290,661	135,435	–	–
			348,770	167,646	1,240	1,430

At 31 December 2013, the Group's and the Company's bank loans were repayable as follow:

	Group 2013 HK$'000	Group 2012 HK$'000	Company 2013 HK$'000	Company 2012 HK$'000
Within 1 year	26,515	1,430	1,240	1,430
Between 1-2 years	37,912	24,625	–	–
Between 2-5 years	252,749	110,810	–	–
	317,176	136,865	1,240	1,430

(i) At 31 December 2013 and 2012, the Group's and the Company's current bank borrowing of HK$1,240,000 (2012: HK$1,430,000) was secured by the Group's leasehold land and buildings with a net carrying amount of HK$754,000 (2012: HK$782,000) (note 13).

(ii) At 31 December 2013, the Group's unsecured other borrowings will mature in April 2014 (2012: matured in April 2013).

(iii) At 31 December 2013 and 2012, the Group's bank borrowings of HK$315,936,000 (2012: HK$135,435,000) were secured by the Group's land use right with net carrying amount of HK$317,548,000 (2012: HK$317,856,000) (note 14). According to the repayment terms, the bank borrowings will need to be repaid from December 2014 to June 2018.

26 Interest-bearing bank and other borrowings *(Continued)*

The carrying amounts of the Group's and the Company's interest-bearing bank and other borrowings are denominated in the following currencies:

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**1,240**	1,430	**1,240**	1,430
RMB	**347,530**	166,216	**–**	–
	348,770	167,646	**1,240**	1,430

The carrying amounts of the Group's and the Company's interest-bearing bank and other borrowings approximate their fair values.

27 Obligations under finance leases

During the year, the Group leased its motor vehicles for business use. The leases were classified as finance leases and had remaining lease terms of 3 to 4 years. Interest rates underlying all obligations under finance leases were fixed at contract rate of 4.28%. No arrangement had been entered into for contingent rental payments.

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**1,375**	1,375	**1,241**	1,189
Between 1 and 2 years	**1,375**	1,375	**1,295**	1,240
Between 2 and 5 years	**1,200**	2,575	**1,175**	2,470
Total minimum finance lease payments	**3,950**	5,325	**3,711**	4,899
Future finance charges	**(239)**	(426)		
Total net finance lease payables	**3,711**	4,899		
Portion classified as current liabilities	**(1,241)**	(1,189)		
Non-current portion	**2,470**	3,710		

As at 31 December 2013 and 2012, the carrying amounts of the obligations under finance leases are denominated in HK$.

28 Convertible bonds

On 26 January 2011, the Company issued convertible bonds carrying a coupon interest rate of 0.5% per annum up to an aggregate principal amount of HK$515,128,000. The bonds are convertible at the option of the bondholders into fully paid ordinary shares with a par value of HK$0.10 each at any time from the date of the issue of the bonds up to and including 26 January 2016 at an initial conversion price of HK$0.345. According to the terms and conditions of the convertible bonds, the conversion price of the convertible bonds has been adjusted from the initial conversion price of HK$0.345 per conversion share to HK$3.45 per conversion share following completion of the capital reorganisation, and then to HK$2.425 per conversion share as a result of the completion of the open offer on 26 June 2012. The Company may redeem at 100% of the principal amount in cash by giving the bondholders 10 working days' prior written notice. Any convertible bonds not converted will be redeemed on 26 January 2016 at 100% of their principal amount. During the year ended 31 December 2013, the remaining principal amount of the convertible bonds of HK$52,000,000 was fully converted into 21,443,298 ordinary shares of HK$0.01 each.

On 24 May 2013, the Company issued convertible bonds carrying zero coupon rate of an aggregate principal amount of HK$214,640,110. The bonds are convertible at the option of the bondholders into fully paid ordinary shares with a par value of HK$0.01 each at any time from the date of the issue of the bonds up to and including 24 May 2018 at an initial conversion price of HK$0.43. Any convertible bonds not converted will be redeemed on 24 May 2018 at face value of the principal amount. During the year ended 31 December 2013, the convertible bonds of a total principal amount of HK$144,000,000 was converted into 334,883,720 ordinary shares of HK$0.01 each.

(a) The convertible bonds recognised at initial recognition on 26 January 2011 are calculated as follows:

	Group and Company HK$'000
Nominal value of convertible bond issued	515,128
Equity component	(149,228)
Liability component	365,900

Notes to the Consolidated Financial Statements

28 Convertible bonds *(Continued)*

(b) The convertible bonds recognised at initial recognition on 24 May 2013 are calculated as follows:

	HK$'000
Nominal value of convertible bond issued	214,640
Equity component	(155,795)
Liability component	58,845

(c) Movements of the liability component of the convertible bonds during the year are as follows:

	2013 HK$'000	2012 HK$'000
At 1 January	**42,070**	39,304
Liability component on initial recognition (note b)	**58,845**	–
Conversion of convertible bonds	**(82,440)**	–
Interest expense	**4,209**	3,026
Interest payable	**(64)**	(260)
At 31 December	**22,620**	42,070

Interest expense on the liability component of the convertible bonds is calculated using the effective interest method, applying the effective interest rate of 7.698% to 29.539% (2012: 7.698%) per annum to the liability component.

The fair value of the liability component of the convertible bonds as at 31 December 2013 amounted to HK$40,075,000 (2012: HK$35,666,000). The fair value is calculated using the market price of the convertible bonds on the reporting date (or the nearest day of trading) and is within level 2 of the fair value hierarchy.

29 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Deferred income tax assets	**(86)**	–
Deferred income tax liabilities	**247,412**	249,044
	247,326	249,044

(a) The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	2013	2012
	HK$'000	HK$'000
Deferred income tax assets:		
Deferred income tax assets to be recovered within 12 months	**(2,647)**	(86)
Deferred income tax assets to be recovered after more than 12 months	**(2,993)**	–
	(5,640)	(86)
Deferred income tax liabilities:		
Deferred income tax liabilities to be recovered after more than 12 months	**252,966**	249,130
	252,966	249,130
Deferred income tax liabilities (net)	**247,326**	249,044

Notes to the Consolidated Financial Statements

29 Deferred income tax *(Continued)*

(a) The analysis of deferred income tax assets and deferred income tax liabilities is as follows: *(Continued)*

The net movements of the deferred income tax account are as follows:

	2013	2012
	HK$'000	HK$'000
At 1 January	**249,044**	265,788
Deferred income tax credited to consolidated income statement (note 9)	**(8,233)**	(16,945)
Exchange realignment	**6,515**	201
At 31 December	**247,326**	249,044

At 31 December 2013, the Group had unused tax losses in Hong Kong of approximately HK$83,767,000 (2012: HK$60,231,000) available indefinitely for offsetting against future taxable profits of the companies in which the losses arose; and unused tax losses in the PRC of HK$20,268,000 (2012: HK$44,220,000) available for offsetting against future profits of the PRC subsidiaries which will be expired in 5 years. No deferred tax assets in respect of such losses has been recognised due to the unpredictability of future taxable profit streams.

Notes to the Consolidated Financial Statements

29 Deferred income tax *(Continued)*

(b) The movements in deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred tax liabilities

	Revaluation of land use right HK$'000	Revaluation of investment property HK$'000	Waiver of other payable HK$'000	Different bases in reporting revenue with tax authority HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1 January 2012	181,600	62,737	20,817	702	18	265,874
Deferred tax charged (credited) to consolidated income statement	1,269	950	(20,802)	1,638	–	(16,945)
Exchange realignment	159	54	(15)	3	–	201
At 31 December 2012	183,028	63,741	–	2,343	18	249,130
Deferred tax charged (credited) to consolidated income statement	455	(3,735)	–	483	75	(2,722)
Exchange realignment	4,838	1,654	–	66	–	6,558
At 31 December 2013	188,321	61,660	–	2,892	93	252,966

Deferred tax assets

	Tax losses	
	2013 HK$'000	2012 HK$'000
At 1 January	**(86)**	(86)
Deferred tax credited to the consolidated income statement during the year	**(5,511)**	–
Exchange realignment	**(43)**	–
At 31 December	**(5,640)**	(86)

Notes to the Consolidated Financial Statements

30 Loans from a shareholder

At 31 December 2012, the Group and the Company had loan balances of HK$14,640,000 from Mr. Cheng Keung Fai ("Mr. Cheng"), a controlling shareholder of the Company, which were unsecured, bore interest at 1% per annum and were repayable on or before April 2013, but contained a repayment on demand clause. The outstanding balances were fully settled during the year.

31 Share capital

	Group and Company	
	2013	2012
	HK$'000	HK$'000
Authorised:		
100,000,000,000 (2012: 100,000,000,000) ordinary shares of HK$0.01 (2012: HK$0.01) each	**1,000,000**	1,000,000
Issued and fully paid:		
1,111,604,000 (2012: 686,637,000) ordinary shares of HK$0.01 (2012: HK$0.01) each	**11,116**	6,866

31 Share capital *(Continued)*

A summary of the transactions during the current and prior years with reference to the movements in the Company's authorised and issued ordinary share capital is as follows:

	Note	Number of shares	Amount HK$'000
Authorised:			
At 1 January 2012		10,000,000,000	1,000,000
Share consolidation	(a)	(9,000,000,000)	–
Capital reorganisation	(b)	99,000,000,000	–
At 31 December 2012 and 2013		100,000,000,000	1,000,000
Issued and fully paid:			
At 1 January 2012		3,433,184,000	343,318
Share consolidation	(a)	(3,089,865,000)	–
Capital reorganisation	(b)	–	(339,885)
Open offer	(c)	343,318,000	3,433
At 31 December 2012 and 1 January 2013		686,637,000	6,866
Shares placement	(d)	68,640,000	687
Issue of shares	(e)	356,327,000	3,563
At 31 December 2013		1,111,604,000	11,116

(a) On 24 May 2012, every ten authorised and issued shares of HK$0.1 each in the share capital of the Company were consolidated into one consolidated share of HK1.0 each in the share capital of the Company. Accordingly, the number of authorised and issued shares of the Company was reduced by 9,000,000,000 and 3,089,865,000, respectively.

(b) On 24 May 2012, every authorised share of HK$1.0 each was divided into one hundred shares of HK$0.01 each and the number of authorised shares of the Company was increased by 99,000,000,000. Moreover, as a result of such division, the share capital of the Company was reduced by HK$339,885,000 and the credit arising was transferred to the contributed surplus of the Company.

(c) On 26 June 2012, the Company completed the open offer by issuing 343,318,000 shares of HK$0.01 each on the basis of 1 offer share for every existing share, at a subscription price of HK$0.538 each per share, resulting in a total cash consideration of HK$184,705,000, of which HK$3,433,000 was credited to the share capital and the balance of HK$181,272,000 was credited to the share premium.

Notes to the Consolidated Financial Statements

31 Share capital *(Continued)*

(d) On 28 February 2013, the Company completed the share placement by issuing 68,640,000 ordinary shares of HK$0.01 each at the placing price of HK$0.415 per placing share.

(e) On 22 March 2013, convertible bonds with principal amount of HK$52,000,000 were converted into approximately 21,443,000 ordinary shares of HK$0.01 each at a conversion price of HK$2.425 per share. On 30 May 2013, convertible bonds with principal amount of HK$144,000,000 were converted into approximately 334,884,000 ordinary shares of HK$0.01 each at a conversion price of HK$0.43 per share.

32 Reserves

(a) Group

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

(b) Company

	Note	Share premium HK$'000	Contributed surplus HK$'000	Equity component of the convertible bonds HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2012		347,213	163,234	15,064	–	(16,076)	509,435
Loss for the year	10	–	–	–	–	(5,470)	(5,470)
Total comprehensive loss for the year		–	–	–	–	(5,470)	(5,470)
Capital reorganisation	31(b)	–	339,885	–	–	–	339,885
Issue of shares	31(c)	181,272	–	–	–	–	181,272
Share issue expenses		(5,018)	–	–	–	–	(5,018)
At 31 December 2012		523,467	503,119	15,064	–	(21,546)	1,020,104
Loss for the year	10	–	–	–	–	(56,980)	(56,980)
Total comprehensive loss for the year		–	–	–	–	(56,980)	(56,980)
Issue of convertible bonds	28	–	–	155,795	–	–	155,795
Issue of shares	31(d) &(e)	226,261	–	(119,585)	–	–	106,676
Share issue expenses		(447)	–	–	–	–	(447)
Grant of share options		–	–	–	46,438	–	46,438
At 31 December 2013		749,281	503,119	51,274	46,438	(78,526)	1,271,586

32 Reserves *(Continued)*

(b) Company *(Continued)*

Contributed surplus of the Company comprises (i) HK$44,072,000 arising from the excess of the combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange thereof at the time of the Group reorganisation; and (ii) HK$459,047,000 arising from the Company's capital reorganisation on 6 September 2010 and 24 May 2012.

33 Share-based payments – Group and Company

Share options are granted to directors and to selected employees. The exercise price of the granted options is HK$0.94 which is equal to the market price of the shares on the date of the grant at 5 November 2013. The options are exercisable in ten years starting from the grant date. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding are as follows:

	2013 Number of options
At 1 January	–
Granted	77,812,266
At 31 December	77,812,266

No options were exercised during the year.

The weighted average fair value of options granted during the year determined using the binomial valuation model was HK$0.5968 per option. The significant inputs into the model were the share price at the grant date, exercise price shown above, volatility of 79.5%, dividend yield of nil, an expected option life of five years and an annual risk-free interest rate of 0.966%. See Note 7 and 8 for the total expense recognised in the consolidated income statement for share options granted to certain directors and employees.

Notes to the Consolidated Financial Statements

34 Transaction with non-controlling interests – acquisition of remaining interest of a subsidiary

On 11 January 2012, the Group acquired the remaining 9.943% of the issued shares of Chengdu Zhongfa at a purchase consideration of HK$30,000,000. The carrying amount of the non-controlling interests in Chengdu Zhongfa on the date of acquisition was HK$30,506,000. The Group recognised a decrease in non-controlling interests of HK$30,506,000 and an increase in equity attributable to equity holders of the Company of HK$506,000. The effect of changes in the ownership interest of Chengdu Zhongfa as at the date of acquisition is summarised as follows:

	HK$'000
Carrying amount of non-controlling interests acquired	30,506
Consideration paid to non-controlling interests	(30,000)
Excess over consideration on acquisition recognised within equity	506

35 Operating lease commitments

(a) As lessor

The Group leases its investment property under non-cancellable operating lease arrangements, with leases negotiated for terms ranging from 2 to 14 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2013 **HK$'000**	2012 HK$'000
Within one year	**20,663**	20,973
Between two to five years	**86,460**	81,314
Over five years	**180,314**	201,337
	287,437	303,624

35 Operating lease commitments *(Continued)*

(b) As lessee

The Group leases certain of its office properties under non-cancellable operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Within one year	**5,810**	6,071
Between two to five years	**6,557**	12,278
	12,367	18,349

36 Other commitments

At the end of the reporting period, the Group had commitments for the following expenditures in respect of:

	Group	
	2013	2012
	HK$'000	HK$'000
Contracted but not provided for:		
Loans to an associate	**–**	5,923
Property and hotel development	**243,849**	484,073
Property, plant and equipment	**177**	–
	244,026	489,996
Authorised but not contracted for:		
Property and hotel development	**1,274,744**	1,426,893
	1,518,770	1,916,889

The Company did not have any significant commitments at the end of the reporting period (2012: nil).

Notes to the Consolidated Financial Statements

37 Banking facilities and pledge of assets

The Group's banking facilities were secured by the Group's leasehold land classified as finance lease and buildings of HK$754,000 (2012: HK$782,000) (note 13) and land use rights of HK$317,548,000 (2012: HK$317,856,000) (note 14).

38 Related party disclosures

(i) Related party transactions

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the reporting period:

– Underwriting commission of nil (2012: HK$2,367,000) was paid to Mr. Cheng, a controlling shareholder of the Company, for being the underwriter of the open offer made by the Company on 26 June 2012.

– Interest of HK$48,000 (2012: HK$146,000) was paid to Mr. Cheng for the loans from a shareholder.

– Accountancy service fee of nil (2012: HK$120,000) was received from Talent Films Limited, an associate of the Company.

(ii) Compensation of key management personnel

The directors are the key management personnel of the Group. Details of their remunerations are disclosed in note 8(a) to the financial statements.

39 Litigation

On 9 July 2012, a summon was served on Chengdu Zhongfa, an indirect wholly-owned subsidiary of the Company, as one of the defendants in a civil complaint issued by 四川民族飯店 (the "Plaintiff"). The Plaintiff alleged that 中國中小企業投資有限公司, 成都弘易地產有限責任公司 and Chengdu Zhongfa (together, the "Defendants") colluded with each other to cheat the Plaintiff of certain land use rights in the PRC, which forms part of the Group's investment property, by certain contracts made in 1995, 1997 and 2003. The Plaintiff petitioned the Higher People's Court of Sichuan Province (the "Court") to declare all those contracts void, to return the land use rights to the Plaintiff and to award damages and costs in favour of the Plaintiff. The directors have appointed an external PRC lawyer to provide legal advice and handle this matter. The Defendants appeared before the Court on 20 September 2012 and the Court's judgement was not made up to the date of approval of these financial statements. Management, after taking legal advice from the lawyer and based on the latest information obtained, is of the opinion that the legal proceeding is ongoing and it is not probable to assess the outcome of the case at this stage. Management does not anticipate that any material liabilities will arise from the outcome of this litigation and there would be no material impact to the financial position nor consolidated financial statements of the Group for the year ended 31 December 2012 and 2013.

40 Financial instruments

Categories of financial instruments

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Trade receivables	**8,137**	12,037	**–**	–
Other receivables (note 22)	**2,149**	495	**–**	–
Amounts due from subsidiaries	**–**	–	**1,285,762**	1,069,949
Cash and cash equivalents	**163,161**	66,089	**16,004**	10,397
	173,447	78,621	**1,301,766**	1,080,346
Financial liabilities				
Trade and land payables	**345,322**	6,418	**–**	–
Other payables (note 25)	**8,605**	9,858	**–**	–
Interest-bearing bank and other borrowings	**348,770**	167,646	**1,240**	1,430
Obligations under finance leases	**3,711**	4,899	**–**	–
Loans from a shareholder	**–**	14,640	**–**	14,640
Convertible bonds	**22,620**	42,070	**22,620**	42,070
	729,028	245,531	**23,860**	58,140

41 Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents, interest-bearing bank and other borrowings, obligations under finance leases, convertible bonds and loans from a shareholder. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks which are summarised below.

41 Financial risk management objectives and policies *(Continued)*

Interest rate risk

At 31 December 2013, the Group had short-term bank deposit of nil (2012: HK$862,000), other borrowings of HK$31,594,000 (2012: HK$30,781,000), obligations under finance leases of HK$3,711,000 (2012: HK$4,899,000), convertible bonds of nil (2012: HK$42,070,000), and loans from a shareholder of nil (2012: HK$14,640,000) which are interest bearing with fixed interest rates.

At 31 December 2013, the Group had bank borrowings of HK$317,176,000 (2012: HK$136,865,000), which are interest bearing with floating interest rates. If interest rates on the bank borrowings have been 100 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been approximately HK$12,000 (2012: HK$14,000) higher/lower mainly as a result of higher/lower interest expense on floating rate borrowings, while the total non-current assets would have been approximately HK$3,159,000 (2012: HK$1,354,000) higher/lower mainly as a result of higher/lower interest expense of floating rate borrowings capitalised on qualifying assets within property, plant and equipment.

Foreign currency risk

The Group carries on its sale and purchase transactions mainly in HK$, US$ and RMB. As the foreign currency risk generated from the sales and purchases can be set off with each other, the foreign currency risk is minimal for the Group. It is the policy of the Group to continue maintaining the balance of its sales and purchases in the same currency. The Group does not use derivative financial instruments to protect against the volatility associated with foreign currency transactions and other financial assets and liabilities created in the ordinary course of the business.

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and on an individual basis. Each of the customers has been attached with a trading limit and any excess to the limit must be approved by the general manager of the operation unit. Under the tight control of the credit term and detailed assessment to the creditworthiness of individual customers, the Group's exposure to bad debts is maintained as minimal.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

Notes to the Consolidated Financial Statements

41 Financial risk management objectives and policies *(Continued)*

Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. The Group's objectives are to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain a contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirement.

The Group meets its day to day working capital requirements, capital expenditure and financial obligations through cash inflow from operating activities, raising additional share capital, and the facilities obtained from banks and others.

The directors closely monitor the Group's liquidity position and financial performance and have initiated measures to improve the Group's cash flows. These measures include raising additional capital; obtaining additional financing from banks and others; and realizing certain assets held by the Group through disposal, if considered necessary. The Group is expected to be able to generate sufficient cash flows to cover its operating costs and meet its financial obligations as and when they fall due in the coming twelve months from the date of these financial statements.

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

	Group			
	Within one year or on demand HK$'000	Between two to five years HK$'000	Over five years HK$'000	Total HK$'000
2013				
Trade and land payables	**345,322**	**–**	**–**	**345,322**
Other payables	**8,605**	**–**	**–**	**8,605**
Interest-bearing bank and other borrowings[1]	**85,616**	**349,084**	**–**	**434,700**
Obligations under finance leases	**1,375**	**2,575**	**–**	**3,950**
Convertible bonds	**–**	**70,640**	**–**	**70,640**
	440,918	**422,299**	**–**	**863,217**
2012				
Trade payables	6,418	–	–	6,418
Other payables	9,858	–	–	9,858
Interest-bearing bank and other borrowings[1]	42,474	155,621	–	198,095
Obligations under finance leases	1,375	3,950	–	5,325
Loans from a shareholder[1]	14,689	–	–	14,689
Convertible bonds	260	52,539	–	52,799
	75,074	212,110	–	287,184

Notes to the Consolidated Financial Statements

41 Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Company		
	Within one year or on demand HK$'000	**Between two to five years HK$'000**	**Total HK$'000**
2013			
Interest-bearing bank borrowings[1]	**1,380**	**–**	**1,380**
Convertible bonds	**–**	**70,640**	**70,640**
	1,380	**70,640**	**72,020**
2012			
Loans from a shareholder[1]	14,689	–	14,689
Interest-bearing bank borrowings[1]	1,617	–	1,617
Convertible bonds	260	52,539	52,799
	16,566	52,539	69,105

[1] Included in interest-bearing bank and other borrowings amounted to HK$1,380,000 (2012: HK$1,617,000) and loans from a shareholder amounted to nil (2012: HK$14,689,000) are term loans. The loan agreements contain a repayment on-demand clause, giving the lenders the unconditional right to call in the loan at any time and therefore, for the purpose of the above maturity profile, the total amounts are classified as "on demand".

Notwithstanding the above clause, the directors do not believe that the loans will be called in its entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the loans, the maturity terms at 31 December 2013 are HK$240,000 in 2014, HK$960,000 between 2015 to 2018 and HK$180,000 from 2019 beyond.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefit other shareholders and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amounts of dividend paid to shareholders, return capital to shareholders, issue new shares or selling assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 2012.

The Group monitors capital using a current ratio, which is total current assets divided by total current liabilities. The Group's policy is to keep the current ratio above 1.

41 Financial risk management objectives and policies *(Continued)*

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade and other receivables and trade and other payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

See note 15 for disclosures of the investment property that are measured at fair value at 31 December 2013.

42 Events after the reporting period

(a) On 5 March 2014, the Company completed placing of 214,200,000 ordinary shares of HK$0.01 each to independent parties of the Company at the placing price of HK$0.56 per placing share. On the same date, the Company issued warrants to the placees at nil consideration conferring the rights to subscribe for up to an aggregate of 7,933,333 warrant shares at the subscription price of HK$0.70 per warrant share. The warrants will be issued to the placees on the basis of 1 warrant to 27 placing shares.

(b) On 15 March 2014, the Company entered into an amended and restated subscription agreement originally dated 18 September 2013 in respect of the issue of the 20% guaranteed secured notes in the combined amount of up to a maximum principal amount of USD80,000,000.

(c) On 17 March 2014, a Company's subsidiary entered into an entrusted loan agreement with a PRC bank, obtaining a 1 year term loan amounting to RMB250,000,000 which is interest bearing at the market rate. Under the loan agreement, the borrowing was secured by the newly acquired land situated in Xiangtan, Hunan for the residential development project and guaranteed by a shareholder, Mr. Cheng and related parties.

Five Year Financial Summary

A summary of the results, assets, liabilities and non-controlling interests of the Group for the last five financial years is as follows:

	Year ended 31 December				
	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
Results					
Continuing operations revenue	**26,801**	34,813	54,510	126,566	119,488
(Loss) profit before income tax from continuing operations	**(80,065)**	(30,933)	68,271	63,329	8,760
Income tax credit (expense)	**14,489**	13,590	(10,507)	(6,527)	(1,236)
(Loss) profit for the year from continuing operations	**(65,576)**	(17,343)	57,764	56,802	7,524
Discontinued operation					
Loss for the year from a discontinued operation	**–**	–	–	–	(211)
(Loss) profit for the year	**(65,576)**	(17,343)	57,764	56,802	7,313
Attributable to:					
Equity holders of the Company	**(65,576)**	(17,422)	54,798	55,171	6,727
Non-controlling interests	**–**	79	2,966	1,631	586
	(65,576)	(17,343)	57,764	56,802	7,313

	As at 31 December				
	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
Assets and Liabilities					
Total assets	**2,502,628**	1,749,630	1,566,991	607,979	391,510
Total liabilities	**(996,488)**	(521,110)	(472,020)	(98,272)	(140,137)
	1,506,140	1,228,520	1,094,971	509,707	251,373
Attributable to:					
Equity holders of the Company	**1,506,140**	1,228,520	1,064,544	483,495	227,639
Non-controlling interests	**–**	–	30,427	26,212	23,734
	1,506,140	1,228,520	1,094,971	509,707	251,373

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an annual general meeting of Cheung Wo International Holdings Limited (the "**Company**") will be held at Room 4101, 41/F, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong on Wednesday, 11 June 2014 at 3:00 p.m., to transact the following businesses:

1. to receive and consider the audited consolidated financial statements and the reports of the directors (the "**Director(s)**") and auditors of the Company for the year ended 31 December 2013;

2. (a) to re-elect Mr. Jin Lei as executive Director;

   (b) to re-elect Mr. Chu To, Jonathan as independent non-executive Director; and

   (c) to authorise the board of Directors to fix the Directors' remuneration;

3. to re-appoint Messrs. PricewaterhouseCoopers as the auditors of the Company and to authorise the board of Directors to fix their remuneration.

As special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions (with or without modification):

ORDINARY RESOLUTION

4. **"THAT:**

   (a) subject to paragraph (c) below, pursuant to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with unissued shares of the Company (the "**Shares**") and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the exercise of any options granted under the share option scheme of the Company (if applicable); or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the bye-laws of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and

(bb) (if the Directors are so authorised by a separate ordinary resolution of the shareholders (the "**Shareholders**") of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of resolution no. 5),

and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purposes of this resolution:

"**Relevant Period**" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1981 of Bermuda (as amended) (the "**Companies Act**") or any other applicable law of Bermuda to be held; and

(iii) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors by this resolution;

"**Rights Issue**" means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong)."

5. **"THAT:**

(a) the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to purchase the Shares on the Stock Exchange or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange, the Companies Act and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

Notice of Annual General Meeting

(b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(c) for the purposes of this resolution, "**Relevant Period**" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act or any other applicable law of Bermuda to be held; and

(iii) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors by this resolution."

6. **"THAT** the Directors be and are hereby authorised to exercise the authority referred to in paragraph (a) of resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution."

By Order of the Board
Cheung Wo International Holdings Limited
Jin Lei
Chairman

Hong Kong, 25 April 2014

Notice of Annual General Meeting

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Room 4101, 41/F
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

Notes:

1. A member entitled to attend and vote at the annual general meeting convened by the above notice is entitled to appoint one or, if he is a holder of more than one share, more proxies to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the annual general meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.

2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, at the offices of the Hong Kong branch share registrar of the Company, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the annual general meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a shareholder of the Company from attending in person and voting at the annual general meeting or any adjournment thereof, should he/she/it so wish and in such event, the form of proxy shall be deemed to be revoked.

3. In relation to proposed resolutions nos. 4 and 6 above, approval is being sought from the Shareholders for the grant to the directors of the Company of a general mandate to authorise the allotment and issue of shares of the Company under the Listing Rules. The Directors wish to state that they have no immediate plan to issue any new shares of the Company other than Shares which may fall to be issued upon the conversion of the convertible bond(s) of the Company, or any scrip dividend scheme which may be approved by the Shareholders.

4. In relation to proposed resolution no. 5 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase Shares in circumstances which they deem appropriate for the benefit of the Shareholders. An explanatory statement containing the information necessary to enable the Shareholders to make an informed decision to vote on the proposed resolution as required by the Listing Rules is set out in Appendix I to the Company's circular dated 25 April 2014.

5. As at the date of this notice, the Board comprises six Directors. The executive Directors are Mr. Jin Lei (Chairman), Ms. Law Kee, Alice (Chief executive officer), and Mr. Hui Wai Lee, Willy; and the independent non-executive Directors are Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chu To, Jonathan.