SUFFICIENT VALUE GROUP LIMITED
Accountants' Report

For each of the three years ended 31 December
2009, 2010 and 2011 and the seven months ended 31 July 2012

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12 December 2012

The Directors
China Data Broadcasting Holdings Limited
China Merchants Securities (HK) Company Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information (the "Financial Information") regarding Sufficient Value Group Limited (the "Target Co BVI") and its subsidiaries (hereinafter collectively referred to as the "Target Group") for each of the three years ended 31 December 2009, 2010 and 2011 and seven months ended 31 July 2012 (the "Track Record Periods") for inclusion in a circular issued by China Data Broadcasting Holdings Limited (the "Company") dated 12 December 2012 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of the Target Co BVI from Fit Generation Holding Limited ("Fit Generation") (the "Proposed Acquisition").

The Target Co BVI was incorporated and registered as an exempted company with limited liability in the British Virgin Islands (the "BVI") on 28 March 2011. Pursuant to a group reorganisation as described in the sub-section headed "The Reorganisation" in the section headed "History and Background of the Target Group" in the Circular (the "Reorganisation"), the Target Co BVI became the holding company of the companies comprising the Target Group on 5 March 2012.

As at 31 December 2009, 2010, 2011, 31 July 2012 and the date of this report, Target Co BVI has direct and indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

INTRODUCTION (Continued)

Name of Company	Notes	Place and date of incorporation or establishment / operation	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Target Co BVI				Principal activities
				As at 31 December			As at 31 July 2012 and the date of this report	
Direct equity interest				2009	2010	2011		
Changhong (Hong Kong) Enterprises Limited 港虹實業有限公司 ("Changhong (Hong Kong) Enterprises")		Hong Kong 1 June 2011	HK$ 10,001	-	-	100%	100%	Investment holding
Indirect equity interest								
Changhong IT Information Products Co., Ltd. 四川長虹佳華信息產品有限責任公司 ("Changhong IT")	(i, ii)	The People's Republic of China (the "PRC") 13 October 2004	RMB200 million	-	-	-	90%	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Changhong IT Digital Technology Co., Ltd. 四川長虹佳華數字技術有限公司 ("Changhong IT Digital")	(i, iii)	The PRC 12 August 2008	RMB50 million	-	-	-	90%	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Beijing Changhong IT Intelligence System Co., Ltd. 北京長虹佳華智能系統有限公司 ("Changhong IT Intelligence")	(i, iv)	The PRC 3 November 2010	RMB50 million	-	-	-	90%	Provision of professional integrated IT solutions and services and distribution of consumer digital products

Notes:

(i) The English name is for identification purpose only.

(ii) Changhong IT was established in the PRC as a domestic company.

(iii) Changhong IT Digital was established in the PRC as a domestic company and is a wholly owned subsidiary of Changhong IT.

(iv) Changhong IT Intelligence was established in the PRC as a domestic company and is 50% owned by Changhong IT and 50% owned by Changhong IT Digital respectively.

INTRODUCTION (Continued)

All the companies comprising the Target Group have adopted 31 December as their financial year end date.

No audited statutory financial statements have been prepared for the Target Co BVI since its date of incorporation as there is no such statutory requirement. For the purpose of this report, we have, however, reviewed all the relevant transactions of this company since the date of incorporation to the date of this report and carried out such procedures as we considered necessary for inclusion of the financial information relating to this company.

No audited statutory financial statements have been prepared for Changhong (Hong Kong) Enterprises since its date of incorporation as its first statutory financial statements which cover the period from date of incorporation to 31 December 2011 is not due to be issued. For the purpose of this report, we have, however, reviewed all the relevant transactions of this company since the date of incorporation to the date of this report and carried out such procedures as we considered necessary for inclusion of the financial information relating to this company.

The statutory audited financial statements for the years ended 31 December 2009, 2010 and 2011 or since the date of establishment, whichever is earlier, of Changhong IT, Changhong IT Digital and Changhong IT Intelligence were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC.

The statutory auditors of the following companies during the Track Record Periods are as follows:

Name of company	Financial period	Statutory auditor *(Note i)*
Changhong IT	For each of the three years ended 31 December 2009, 2010 and 2011	ShineWing Certified Public Accountants Chengdu Branch 信永中和會計師事務所成都分所 *Certified Public Accountants registered in the PRC*
Changhong IT Digital	For each of the three years ended 31 December 2009, 2010 and 2011	ShineWing Certified Public Accountants Chengdu Branch 信永中和會計師事務所成都分所 *Certified Public Accountants registered in the PRC*
Changhong IT Intelligence	From 3 November 2010 (date of establishment) to 31 December 2011	ShineWing Certified Public Accountants Chengdu Branch 信永中和會計師事務所成都分所 *Certified Public Accountants registered in the PRC*

Note i: The English name is for identification purpose only.

For the purpose of this report, the director of Target Co BVI has prepared the combined financial statements of the Target Group for the Track Record Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have carried out independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information of the Target Group for the Track Record Periods as set out in this report for inclusion in the Circular has been prepared from the Underlying Financial Statements, on the basis of presentation set out in note 1 of Section B, whereas no adjustment was considered necessary. We have examined the Underlying Financial Statements and have carried out such additional procedures as considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

DIRECTORS' RESPONSIBILITY

The director of the Target Co BVI is responsible for the preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view in accordance with HKFRSs issued by the HKICPA. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, that the judgements and estimates made are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated. The directors of the Company are also responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an independent opinion on the Financial Information based on our audit procedures and to report our opinion thereon to you.

OPINION

In our opinion, for the purpose of this report and on the basis of preparation set out in note 1 of Section B below, the Financial Information gives a true and fair view of the state of affairs of the Target Group as at 31 December 2009, 2010, 2011 and 31 July 2012, and of the Target Co BVI as at 31 December 2011 and 31 July 2012, and of the combined results and cash flows of the Target Group for the Track Record Periods.

REVIEW CONCLUSION

The comparative combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Target Group for the seven months ended 31 July 2011 together with the notes thereto have been extracted from the Target Group's unaudited combined financial statements for the same period (the "31 July 2011 Financial Information") which was prepared by the director of the Target Co BVI solely for the purpose of this report.

We have reviewed the 31 July 2011 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review consists principally of making enquires, primarily of persons responsible for financial and accounting matters and applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 31 July 2011 Financial Information.

Based on our review, nothing has come to our attention that causes us to believe that the 31 July 2011 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in preparation of the Financial Information with conform with HKFRSs.

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Seven months ended 31 July	
		2009	2010	2011	2011	2012
		HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Turnover	7	5,204,358	8,115,756	13,357,743	6,761,560	8,439,564
Cost of sales and services provided		(4,858,440)	(7,681,054)	(12,729,924)	(6,427,260)	(8,046,355)
Gross profit		345,918	434,702	627,819	334,300	393,209
Other income	9	1,775	7,780	20,053	11,789	1,574
Selling and distribution expenses		(108,687)	(160,548)	(226,500)	(114,607)	(135,692)
Administrative expenses		(42,265)	(61,236)	(93,365)	(36,144)	(38,573)
Finance costs	10	(11,642)	(20,554)	(31,983)	(9,421)	(31,660)
Profit before tax		185,099	200,144	296,024	185,917	188,858
Income tax	11	(50,008)	(57,544)	(87,390)	(46,340)	(51,313)
Profit for the year / period	12	135,091	142,600	208,634	139,577	137,545
Other comprehensive income for the year / period:						
Exchange differences arising on translation of foreign operations		2,556	17,844	24,720	16,201	(10,479)
Total comprehensive income for the year / period		137,647	160,444	233,354	155,778	127,066
Profit for the year / period attributable to:						
Owners of the Target Co BVI		134,186	133,206	188,033	125,619	123,790
Non-controlling interests		905	9,394	20,601	13,958	13,755
		135,091	142,600	208,634	139,577	137,545
Total comprehensive income for the year / period attributable to:						
Owners of the Target Co BVI		136,725	149,266	210,282	140,200	114,359
Non-controlling interests		922	11,178	23,072	15,578	12,707
		137,647	160,444	233,354	155,778	127,066

COMBINED STATEMENTS OF FINANCIAL POSITION

		The Target Group				The Target Co BVI	
		As at 31 December			As at 31 July	As at 31 December	As at 31 July
	Notes	2009	2010	2011	2012	2011	2012
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Note)	HK$'000
Non-current assets							
Plant and equipment	15	15,515	12,982	15,661	18,828	-	-
Investments in subsidiaries	16	-	-	-	-	10	190,010
		15,515	12,982	15,661	18,828	10	190,010
Current assets							
Inventories	17	456,197	700,684	1,447,135	1,413,668	-	-
Trade and bills receivables	18	479,056	891,617	1,013,074	962,887	-	-
Prepayments, deposits and other receivables	19	130,630	116,945	340,383	453,001	-	-
Property held for sale	20	-	-	411	405	-	-
Pledged bank deposits	21	19,753	309,016	7,390	7,762	-	-
Bank balances and cash	21	192,129	123,436	41,694	94,989	-	-
Amount due from ultimate holding company	25	-	-	-	26	-	-
		1,277,765	2,141,698	2,850,087	2,932,738	-	-
Current liabilities							
Trade and bills payables	22	422,682	829,478	1,008,529	1,242,353	-	-
Other payables	23	51,298	107,828	149,691	154,695	-	-
Dividend payables		-	127	197,851	186	-	-
Customer deposits	24	44,943	68,233	188,760	116,343	-	-
Income tax payables		25,091	33,633	52,072	13,734	-	-
Amount due to a subsidiary	25	-	-	-	-	10	10
Amount due to ultimate holding company	25	341,550	561,160	665,550	-	-	-
Bank overdraft	26	-	-	-	59,175	-	-
Bank and other borrowings	26	-	-	12,325	630,450	-	-
		885,564	1,600,459	2,274,778	2,216,936	10	10
Net current assets (liabilities)		392,201	541,239	575,309	715,802	(10)	(10)
Total assets less current liabilities		407,716	554,221	590,970	734,630,	-	190,000

COMBINED STATEMENTS OF FINANCIAL POSITION (Continued)

		The Target Group				The Target Co BVI	
		As at 31 December			As at 31 July	As at 31 December	As at 31 July
	Notes	2009	2010	2011	2012	2011	2012
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Note)	HK$'000
Capital and reserves							
Share capital	28	193,240	193,240	193,240	-	-	-
Reserves	29	211,744	326,588	343,157	650,756	-	190,000
		404,984	519,828	536,397	650,756	-	190,000
Non-controlling interests		2,732	34,393	54,573	67,280	-	-
Total equity		407,716	554,221	590,970	718,036	-	190,000
Non-current liability							
Deferred income	27	-	-	-	16,594	-	-
		407,716	554,221	590,970	734,630	-	190,000

Note:
The statements of financial position as at 31 December 2009 and 2010 of the Target Co BVI are not presented as the Target Co BVI was incorporated in the BVI with limited liability on 28 March 2011. As at 31 December 2011, the Target Co BVI had 1 ordinary share of US$1 and minimal assets on the statement of financial position.

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Co BVI								
	Share capital	Share premium	Statutory reserve	Capital reserve	Exchange reserve	Retained profits	Total equity	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000 (Note (i))	HK$'000 (Note (ii))	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009	193,240	-	8,035	-	10,858	56,126	268,259	1,810	270,069
Profit for the year	-	-	-	-	-	134,186	134,186	905	135,091
Other comprehensive income									
Exchange differences arising on translation of foreign operations	-	-	-	-	2,539	-	2,539	17	2,556
Total comprehensive income for the year	-	-	-	-	2,539	134,186	136,725	922	137,647
Appropriation to statutory reserve funds	-	-	13,420	-	-	(13,420)	-	-	-
At 31 December 2009	193,240	-	21,455	-	13,397	176,892	404,984	2,732	407,716
Profit for the year	-	-	-	-	-	133,206	133,206	9,394	142,600
Other comprehensive income									
Exchange differences arising on translation of foreign operations	-	-	-	-	16,060	-	16,060	1,784	17,844
Total comprehensive income for the year	-	-	-	-	16,060	133,206	149,266	11,178	160,444
Capital contribution from a non-controlling shareholder	-	-	-	-	-	-	-	21,509	21,509
Dividend recognised as distribution to non-controlling interests	-	-	-	-	-	-	-	(1,026)	(1,026)
Dividend recognised as distribution (note 33)	-	-	-	-	-	(34,422)	(34,422)	-	(34,422)
Appropriation to statutory reserve funds	-	-	13,321	-	-	(13,321)	-	-	-
At 31 December 2010	193,240	-	34,776	-	29,457	262,355	519,828	34,393	554,221
Profit for the year	-	-	-	-	-	188,033	188,033	20,601	208,634
Other comprehensive income									
Exchange differences arising on translation of foreign operations	-	-	-	-	22,249	-	22,249	2,471	24,720
Total comprehensive income for the year	-	-	-	-	22,249	188,033	210,282	23,072	233,354
Dividend recognised as distribution to non-controlling interests	-	-	-	-	-	-	-	(2,892)	(2,892)
Dividend recognised as distribution (note 33)	-	-	-	-	-	(193,713)	(193,713)	-	(193,713)
Appropriation to statutory reserve funds	-	-	18,803	-	-	(18,803)	-	-	-
At 31 December 2011	193,240	-	53,579	-	51,706	237,872	536,397	54,573	590,970
Profit for the period	-	-	-	-	-	123,790	123,790	13,755	137,545
Other comprehensive income									
Exchange differences arising on translation of foreign operations	-	-	-	-	(9,431)	-	(9,431)	(1,048)	(10,479)
Total comprehensive income for the period	-	-	-	-	(9,431)	123,790	114,359	12,707	127,066
Group reorganisation (note 28)	(193,240)	190,000	-	3,240	-	-	-	-	-
At 31 July 2012	-	190,000	53,579	3,240	42,275	361,662	650,756	67,280	718,036

COMBINED STATEMENTS OF CHANGES IN EQUITY (Continued)

Seven months ended 31 July 2011

	Attributable to owners of the Target Co BVI								
	Share capital	Share premium	Statutory reserve	Capital reserve	Exchange reserve	Retained profits	Total equity	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000 (Note (i))	HK$'000 (Note (ii))	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011 (audited)	193,240	-	34,776	-	29,457	262,355	519,828	34,393	554,221
Profit for the period	-	-	-	-	-	125,619	125,619	13,958	139,577
Other comprehensive income									
Exchange differences arising on translation of foreign operations	-	-	-	-	14,581	-	14,581	1,620	16,201
Total comprehensive income for the period	-	-	-	-	14,581	125,619	140,200	15,578	155,778
At 31 July 2011 (unaudited)	193,240	-	34,776	-	44,038	387,974	660,028	49,971	709,999

Notes:

(i) Statutory reserve

In accordance with the Articles and Association of the PRC subsidiaries and the relevant laws and regulations applicable in the PRC, companies now comprising the Target Group established in the PRC are required to appropriate at least 10% of their statutory annual profits after tax determined in accordance with the relevant statutory rules and regulations applicable to enterprises in the PRC to the statutory reserve until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses of the respective PRC companies. The amount of the transfer is subject to the approval of the board of directors of the respective PRC companies.

(ii) Capital reserve

The capital reserve represents the reserve arising pursuant to the reorganisation as detailed in note 1.

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
OPERATING ACTIVITIES					
Profit before tax	185,099	200,144	296,024	185,917	188,858
Adjustments for :					
Bank interest income	(1,161)	(1,233)	(1,874)	(1,003)	(631)
Finance costs	11,642	20,554	31,983	9,421	31,660
Allowance for obsolete inventories	-	8,120	6,147	-	12,045
Reversal of allowance for obsolete inventories	-	-	-	-	(5,061)
Impairment losses recognised on trade receivables	98	-	1,319	1,133	1,397
Reversal of impairment on trade receivables	-	(256)	-	-	-
Loss (gain) on disposal of plant and equipment	29	(7)	(250)	(42)	3
Government subsidies	-	(2,876)	(10,451)	(7,698)	(654)
Waiver of other payables	-	-	(1,111)	-	-
Depreciation for plant and equipment	4,759	5,296	5,444	3,015	3,718
Operating cash inflows before movements in working capital	200,466	229,742	327,231	190,743	231,335
(Increase) decrease in inventories	(124,754)	(233,356)	(718,382)	(512,549)	6,011
(Increase) decrease in trade and bills receivables	(236,967)	(390,731)	(83,900)	(74,811)	34,860
(Increase) decrease in prepayments, deposits and other receivables	(46,254)	18,468	(218,003)	(496,475)	(119,249)
Increase in trade and bills payables	300,548	387,388	142,513	366,025	251,965
Increase in other payables	27,387	53,329	36,164	103,838	6,591
Increase (decrease) in customer deposits	23,122	21,400	116,926	140,680	(70,772)
Cash generated from (used in) operations	143,548	86,240	(397,451)	(282,549)	340,741
Income tax paid	(32,489)	(50,018)	(70,495)	(66,587)	(89,474)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	111,059	36,222	(467,946)	(349,136)	251,267

COMBINED STATEMENTS OF CASH FLOWS (Continued)

	Year ended 31December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
INVESTING ACTIVITIES					
Purchases of plant and equipment	(4,487)	(2,225)	(7,555)	(3,629)	(7,459)
Proceeds from disposal of plant and equipment	324	28	250	28	297
Placement of pledged bank deposits	(16,032)	(286,000)	-	-	(484)
Withdrawal of pledged bank deposits	-	-	313,164	305,739	-
Advance to ultimate holding company	-	-	-	-	(26)
Interest received	1,161	1,233	1,874	1,003	631
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(19,034)	(286,964)	307,733	303,141	(7,041)
FINANCING ACTIVITIES					
New bank and other borrowings raised	-	-	12,325	-	639,946
Government subsidies	-	2,876	10,451	7,698	17,499
Repayment of bank borrowings	-	-	-	-	(12,332)
Advance from (repayment to) ultimate holding company	57,344	205,289	81,520	(53,196)	(665,928)
Capital contribution from a non-controlling shareholder	-	21,509	-	-	-
Dividend paid to non-controlling interests	-	(899)	-	-	(2,853)
Dividend paid	-	(34,422)	-	-	(194,922)
Interest paid	(11,591)	(20,182)	(31,781)	(9,421)	(30,975)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	45,753	174,171	72,515	(54,919)	(249,565)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	137,778	(76,571)	(87,698)	(100,914)	(5,339)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR / PERIOD	53,777	192,129	123,436	123,436	41,694
Effect of foreign exchange rate changes	574	7,878	5,956	2,345	(541)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR / PERIOD	192,129	123,436	41,694	24,867	35,814
REPRESENTED BY					
Bank balances and cash	192,129	123,436	41,694	52,157	94,989
Bank overdraft	-	-	-	(27,290)	(59,175)
	192,129	123,436	41,694	24,867	35,814

B. NOTES TO THE FINANCIAL INFORMATION

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

Reorganisation and operation

Sufficient Value Group Limited (the "Target Co BVI") was incorporated and registered as an exempted company with limited liability in the British Virgin Islands (the "BVI") on 28 March 2011. Its subsidiaries together with Target Co BVI, hereinafter collectively referred to as the "Target Group". The address of its registered office and principal place of business is at Palm Grove House, P.O. Box 438, Roud Town, Tortola, British Virgin Islands.

Target Co BVI is an investment holding company. The principal activities of the companies now comprising the Target Group are provision of professional integrated IT solutions and services and distribution of consumer digital products.

The immediate holding company of the Target Co BVI is Fit Generation Holding Limited ("Fit Generation"), which was incorporated in the BVI with limited liabilities.

The director considers that the ultimate holding company of the Target Co BVI as at the date of this report to be Sichuan Changhong Electric Co., Limited ("Sichuan Changhong"). Sichuan Changhong is a limited company incorporated under the laws of the People's Republic of China (the "PRC") and listed on the Shanghai Stock Exchange. Prior to the completion of the reorganisation discussed below, Sichuan Changhong owned 90% equity interest in Changhong IT, a limited company established in the PRC.

The Financial Information is presented in Hong Kong Dollars ("HK$"). The functional currency of Target Co BVI and its subsidiaries is RMB, which is different from its presentation currency. As Target Co BVI is proposed to be acquired by the Company, which is a public company with the shares listed on The Stock Exchange of Hong Kong Limited and with most of its investors located in Hong Kong, the director of the Target Co BVI considers HK$ is preferable in presenting the operating result and financial position of the Target Group.

Pursuant to a group reorganisation (the "Reorganisation") as described in the sub-section headed "The Reorganisation" in the section headed "History and Background of the Target Group" set out on pages 159 to 162 in a circular issued by China Data Broadcasting Holdings Limited (the "Company") dated 12 December 2012 (the "Circular"), the Target Co BVI became the holding company of the companies comprising the Target Group on 5 March 2012.

The Target Group underwent the Reorganisation, as detailed in the sub-section headed "The Reorganisation" in the section headed "History and Background of the Target Group" in the Circular. Upon completion of the Reorganisation on 5 March 2012, the Target Co BVI became the holding company of Changhong IT and its subsidiaries. The companies that took part in the Reorganisation were controlled by the same ultimate equity shareholder, namely Sichuan Changhong (referred to as the "Controlling Shareholder") during the Track Record Periods or since their respective date of incorporation or establishment up to 31 July 2012 where this is a shorter period.

As there was no change in Controlling Shareholder before and after the Reorganisation, the Financial Information has been prepared as a reorganisation of business under common control. The combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Group for the Track Record Periods includes the results, changes in equity and cash flows of the companies comprising the Target Group upon the completion of the Reorganisation as if the current group structure had been in existence and remained unchanged throughout the Track Record Periods or since their respective dates of incorporation or establishment where this is a shorter period. The combined statements of financial position of the Target Group as at 31 December 2009, 2010, 2011 and 31 July 2012 have been prepared to present the combined assets and liabilities of the companies comprising the Target Group upon the completion of the Reorganisation as if the current group structure had been in existence as at the respective dates. All material intra-group transactions, balances, income and expenses have been eliminated on combination.

B. NOTES TO THE FINANCIAL INFORMATION

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

For the purpose of preparing and presenting the Financial Information for the Track Record Periods, the Target Group has consistently adopted all of the new and revised Hong Kong Accounting Standards ("HKAS"), Hong Kong Financial Reporting Standards ("HKFRS"), amendments and interpretations issued by the HKICPA that are effective for its financial year beginning on 1 January 2012.

The Target Group has not early applied the following new or revised standards, amendments and interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle[2]
HKFRS 1 (Amendments)	First-time Adoption of HKFRSs – Government loans[2]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosures of Interests in Other Entities[2]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in other Entities: Transition Guidance[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[3]
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

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

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

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

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

The director of the Target Co BVI anticipates that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Target Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011). Key requirements of these fives standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The directors of the company are assessing the impact of the HKFRS 10 and are not in the position to comment on the impact to the consolidated financial statements.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time. The director of the Target Co BVI has not yet performed a detailed analysis of the impact of the application of these standards and hence has not yet quantified the extent of the impact.

B. NOTES TO THE FINANCIAL INFORMATION

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

HKFRS 13 Fair Value Measurement

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

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

The sole director of Target Group anticipates that HKFRS 13 will be adopted in Target Group's Financial Information for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the Financial Information and result in more extensive disclosures in the Financial Information.

Amendment to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The director of the Target Co BVI anticipates that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Target Group.

B. NOTES TO THE FINANCIAL INFORMATION

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

Basis of combination

The Financial Information incorporates the financial information of the Target Co BVI and entities controlled by the Target Co BVI (its subsidiaries) now comprising the Target Group. Control is achieved where the Target Co BVI has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Track Record Periods are included in the combined statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Non-controlling interests in the net assets of combined subsidiaries are presented separately from the Target Group's equity therein. Total comprehensive income and expense of a subsidiary is attributed to the owners of the Target Co BVI and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

Investments in subsidiaries are stated at cost, less any identified impairment loss on the Target Co BVI's statement of financial position.

Merger accounting for business combinations involving entities under common control

The combined Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

An item of plant and machinery is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the derecognition of the asset (calculating as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined statement of comprehensive income in the period in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible assets

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

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

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

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

Financial instruments

Financial assets and financial liabilities are recognised in the combined statements of financial position / the Target Co BVI's statement of financial position when a group entity/ the Target Co BVI becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Target Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each reporting period subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables, pledged bank deposits, bank balances and cash and amount due from ultimate holding company) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss of financial assets below).

Impairment loss of financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and bills receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30-180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Target Group and the Target Co BVI's financial liabilities are generally classified as other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities, including trade and bills payables, other payables, dividend payables, amount due to a subsidiary, amount due to ultimate holding company, bank overdraft and bank and other borrowings, are subsequently measured at the amortised cost, using the effective interest method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity-settled share-based payment transactions - share options granted to employees after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the Financial Information until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Properties held for sale

Properties classified as held for sale are measured at the lower of cost and net realisable value.

Retirement benefit costs

Payments to the PRC local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

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

Service income is recognised when services are provided.

Compensation income is recognised when the right to receive payment is established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grants

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

Government grants are recognised in the profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in the profit or loss in the period in which they become receivable.

Leasing

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

The Target Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing cost 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 sales, 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 cost eligible for capitalisation.

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

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is changed to profit or loss in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the Financial Information comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the combined statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above net of bank overdraft.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the Financial Information, the assets and liabilities of the Target Group's foreign operations are translated into the presentation currency of the Target Group (i.e. Hong Kong Dollar) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's / the Target Co BVI's accounting policies, which are described in note 3, the director of the Target Co BVI is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

B. NOTES TO THE FINANCIAL INFORMATION

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Useful lives and residual value of plant and equipment

The Target Group's management determines the residual value, useful lives and related depreciation charges for its plant and equipment. These estimates are based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions. They could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated.

Estimated impairment of receivables

The director of the Target Co BVI regularly reviews the recoverability and/or ageing of receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the combined statement of comprehensive income when there is objective evidence that the asset is impaired.

In determining whether impairment for bad and doubtful debts is required, the Target Group/ the Target Co BVI takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the present value of estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Target Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

As at 31 December 2009, 2010, 2011 and 31 July 2012, the carrying amount of trade and bills receivables is approximately HK$479,056,000, HK$891,617,000, HK$1,013,074,000 and HK$962,887,000 respectively, net of accumulated impairment losses of approximately HK$1,147,000, HK$932,000, HK$2,299,000 and HK$3,642,000 respectively.

As at 31 December 2009, 2010, 2011 and 31 July 2012, the carrying amount of deposits and other receivables is approximately HK$10,356,000, HK$15,169,000, HK$27,469,000 and HK$44,600,000 respectively. No impairment losses were made for deposits and other receivables for the Track Record Periods.

Allowance for obsolete inventories

The director of the Target Co BVI reviews an ageing analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The director of the Target Co BVI estimates the net realisable value for such goods based primarily on the latest invoice prices and current market conditions. The director of the Target Co BVI carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. As at 31 December 2009, 2010, 2011 and 31 July 2012, the carrying amount of inventories is approximately HK$456,197,000, HK$700,684,000, HK$1,447,135,000, and HK$1,413,668,000 respectively, net of accumulated allowance for obsolete inventories of approximately HK$2,136,000, HK$10,408,000, HK$17,038,000 and HK$23,675,000 respectively.

B. NOTES TO THE FINANCIAL INFORMATION

5. CAPITAL RISK MANAGEMENT

The Target Group and the Target Co BVI manage its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity balance. The Target Group and the Target Co BVI's overall strategy remains unchanged during the Track Record Periods.

The capital structure of the Target Group consists of net debt, which includes bank overdraft, bank and other borrowings, net of cash and cash equivalents and equity attributable to owners of the Target Co BVI, comprising issued share capital and reserves.

The director of the Target Co BVI reviews the capital structure periodically. As part of this review, the director of the Target Co BVI considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the director of the Target Co BVI, the Target Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	The Target Group				The Target Co BVI	
	As at 31 December			As at 31 July	As at 31 December	As at 31 July
	2009	2010	2011	2012	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets						
Loans and receivables (including bank balances and cash)	701,294	1,339,238	1,164,355	1,195,428	-	-
Financial liabilities						
At amortised costs	815,530	1,498,593	2,033,946	2,086,859	10	10

b) Financial risk management objectives and policies

The Target Group and the Target Co BVI's major financial instruments include trade and bills receivables, deposits and other receivables, pledged deposits and bank balances and cash, amount due from ultimate holding company, trade and bills payables, other payables, dividend payable, amount due to a subsidiary, amount due to ultimate holding company, bank overdraft and bank and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including interest risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Target Group manages and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

The Target Group and the Target Co BVI have foreign currency purchases, which expose the Group to foreign currency risk. For the year ended 31 December 2009, 2010, 2011 and seven months ended 31 July 2012, approximately 5%, 7%, 6% and 8% respectively, of the Group's purchases are denominated in United States dollars ("USD") which is different from the functional currency of the relevant group entities making the purchases, whilst almost 99% of sales are denominated in the functional currency of the relevant group entities during the Track Record Periods.

6. FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk (Continued)

Also, certain trade receivables, trade payables and customer deposits are denominated in USD which is the currency other than the functional currency of the relevant group entities. The carrying amounts of the group entities' foreign currency dominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
USD	3,007	2,068	6,462	14,230
Liabilities				
USD	31,828	89,902	154,004	173,518

The Target Group currently does not have a foreign currency hedging policy. However, the director of the Target Co BVI continuously monitors the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The Target Group is mainly exposed to the fluctuation of USD.

The following table details the Group's sensitivity to a 5% for all periods increase and decrease in the functional currency (RMB) against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates.

A positive or negative number below indicates an increase or a decrease in post-tax profit where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	USD Impact (Note)			
	Year ended 31 December			Seven months ended 31 July
	2009	2010	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Increase in post-tax profit for the year	1,081	3,294	5,533	5,984

Note:
This is mainly attributable to the exposure on USD denominated trade receivables, trade payables and customer deposits at the end of each reporting period.

6. FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

The Target Group's exposure to changes in interest rates is mainly attributable to its bank balances, pledged bank deposits, amount due to ultimate holding company, bank overdraft and bank and other borrowings. Bank balances and bank overdraft at variable rates exposes the Target Group to cash flow interest-rate risk, while amount due to ultimate holding company and bank and other borrowings at fixed rates expose the Target Group to fair value interest-rate risk. The fair value interest rate risk on amount due to ultimate holding company and fixed rate bank and other borrowings is insignificant as the balances are short-term. The Target Group currently does not have an interest rate hedging policy. However, the director of the Target Co BVI monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Target Group's bank balances, amount due to ultimate holding company and bank and other borrowings and interest rates as at 31 December 2009, 2010, 2011 and 31 July 2012 are set as below:

	At 31 December			At 31 July
	2009	2010	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Fixed rate				
Amount due to ultimate holding company	341,550	513,996	665,550	-
Interest rate	5.10% - 6.33% p.a.	5.10% - 6.30% p.a.	5.10% - 6.89% p.a.	-
Bank and other borrowings	-	-	12,325	630,450
Interest rate	-	-	7.62% p.a.	5% - 9% p.a.
Variable rate				
Bank balances and pledged bank deposits	211,882	432,452	49,084	102,751
Interest rate	0.36% - 2.25% p.a.	0.36% - 2.75% p.a.	0.40% - 3.50% p.a.	0.50% - 3.50% p.a.
Bank overdraft	-	-	-	59,175
Interest rate	-	-	-	6% p.a.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank balances, pledged bank deposits and bank overdraft, the analysis is prepared assuming the bank balances, pledged bank deposits and bank overdraft outstanding at the end of each reporting period were outstanding for the whole year/ period. The basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

100 basis points have been used for variable rate bank balances.

6. FINANCIAL INSTRUMENTS (Continued)

Interest rate risk (Continued)

Sensitivity analysis (Continued)

For variable-rate bank balances, pledged bank deposits and bank overdraft if the interest rates had been 100 basis points higher/lower and all other variables were held constant, the Target Group's profit after tax and retained profits would increase/decrease by approximately HK$1,589,000, HK$3,243,000, HK$368,000 and HK$327,000 during the years ended 31 December 2009, 2010, 2011 and the seven months ended 31 July 2012 respectively.

Credit risk

As at 31 December 2009, 2010, 2011 and 31 July 2012, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statement of financial position.

In order to minimise the credit risk, the management of the Target Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of the Target Co BVI considers that the Target Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the pledged bank deposits and bank balances are maintained with state-owned banks or other creditworthy financial institutions in the PRC and overseas.

The counterparties of the Target Group are mainly in the PRC. However, the credit risk on geographical locations is limited as the counterparties are spread over among different cities and provinces in the PRC as at the end of each reporting period.

Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Target Group monitors the utilisation of borrowings and other source of funding and considers the risk is minimal.

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

6. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

Liquidity risk tables

The Target Group

	On demand or within one year HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
As at 31 December 2009			
Trade and bills payables	422,682	422,682	422,682
Other payables	51,298	51,298	51,298
Amount due to ultimate holding company	348,160	348,160	341,550
	822,140	822,140	815,530
As at 31 December 2010			
Trade and bills payables	829,478	829,478	829,478
Other payables	107,828	107,828	107,828
Dividend payables	127	127	127
Amount due to ultimate holding company	565,399	565,399	561,160
	1,502,832	1,502,832	1,498,593
As at 31 December 2011			
Trade and bills payables	1,008,529	1,008,529	1,008,529
Other payables	149,691	149,691	149,691
Dividend payables	197,851	197,851	197,851
Amount due to ultimate holding company	699,784	699,784	665,550
Bank borrowings	12,482	12,482	12,325
	2,068,337	2,068,337	2,033,946
As at 31 July 2012			
Trade and bills payables	1,242,353	1,242,353	1,242,353
Other payables	154,695	154,695	154,695
Dividend payables	186	186	186
Bank overdraft	60,141	60,141	59,175
Bank and other borrowings	649,376	649,376	630,450
	2,106,751	2,106,751	2,086,859

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

6. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

Liquidity risk tables (Continued)

The Target Co BVI

	On demand or within one year HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
As at 31 December 2011			
Amount due to a subsidiary	10	10	10
As at 31 July 2012			
Amount due to a subsidiary	10	10	10

c) Fair values of financial assets and liabilities

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The director of the Target Co BVI considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

7. TURNOVER

The principal activities of the Target Group are the provision of professional integrated information technology ("IT") solutions and services, and distribution of IT consumer products, IT corporate products, digital products and own brand products.

Turnover represents net amount received and receivable for the sale of different types of IT products, self developed products and provision of professional integrated IT solutions and services, net of discounts and corresponding sales related taxes. The amounts of each significant category of revenue recognised in turnover during the Track Record Periods are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2011 HK$'000 (Unaudited)	2012 HK$'000
IT Consumer Products	3,630,074	5,742,855	9,960,361	5,052,053	5,629,792
IT Corporate Products	1,540,105	2,328,465	3,083,142	1,526,594	2,357,718
Others	34,179	44,436	314,240	182,913	452,054
	5,204,358	8,115,756	13,357,743	6,761,560	8,439,564

B. NOTES TO THE FINANCIAL INFORMATION

8. SEGMENT INFORMATION

Information reported to the directors of the Target Group, being the chief operating decision maker ("CODM"), for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided, as they collectively make strategic decision towards the group entity's operation.

Specifically, the Target Group's reportable and operating segments under HKFRS 8 are as follows:

1) IT Consumer Products – distribution of consumer products which include mainly personal computers, digital products and IT accessories

2) IT Corporate Products – distribution of corporate products which include mainly storage products, minicomputers, networking products

3) Others – distribution of smartphones and development of its own brand products including but not limited to mobile location-based service products and provision of professional integrated IT solutions and services.

The accounting policies of the operating segments are the same as the Target Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of bank interest income, unallocated income as well as head office and corporate expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets do not include plant and equipment, deposits and other receivables for general operating, property held for sale, pledged bank deposits, bank balances and cash and amount due from ultimate holding company. Segment liabilities do not include other payables for general operating, dividend payables, income tax payables, amount due to ultimate holding company, bank overdraft and bank and other borrowings.

8. SEGMENT INFORMATION (Continued)

The following is an analysis of the Target Group's revenue and results, as well as assets and liabilities by reportable and operating segment:

	Year ended 31 December 2009			
	IT Consumer products HK$'000	**IT Corporate products** HK$'000	**Others** HK$'000	**Total** HK$'000
Revenue				
External sales	3,630,074	1,540,105	34,179	5,204,358
Segment profit (loss)	175,888	73,768	(6,683)	242,973
Other income				1,775
Finance costs				(11,642)
Unallocated head office and corporate expenses				(48,007)
Profit before tax				185,099
Segment assets	831,165	218,642	5,720	1,055,527
Unallocated assets:				
Pledged bank deposits				19,753
Bank balances and cash				192,129
Prepayments, deposits and other receivables				10,356
Plant and equipment				15,515
Combined total assets				1,293,280
Segment liabilities	266,608	214,199	885	481,692
Unallocated liabilities:				
Other payables				37,231
Income tax payables				25,091
Amount due to ultimate holding company				341,550
Combined total liabilities				885,564

B. NOTES TO THE FINANCIAL INFORMATION

8. SEGMENT INFORMATION (Continued)

	Year ended 31 December 2010			
	IT Consumer products HK$'000	**IT Corporate products** HK$'000	**Others** HK$'000	**Total** HK$'000
Revenue				
External sales	5,742,855	2,328,465	44,436	8,115,756
Segment profit (loss)	185,553	105,457	(4,844)	286,166
Other income				7,524
Finance costs				(20,554)
Unallocated head office and corporate expenses				(72,992)
Profit before tax				200,144
Segment assets	1,378,757	287,345	27,975	1,694,077
Unallocated assets:				
Pledged bank deposits				309,016
Bank balances and cash				123,436
Prepayments, deposits and other receivables				15,169
Plant and equipment				12,982
Combined total assets				2,154,680
Segment liabilities	630,758	281,464	2,181	914,403
Unallocated liabilities:				
Other payables				91,136
Dividend payables				127
Income tax payables				33,633
Amount due to ultimate holding company				561,160
Combined total liabilities				1,600,459

B. NOTES TO THE FINANCIAL INFORMATION

8. SEGMENT INFORMATION (Continued)

	Year ended 31 December 2011 IT Consumer products HK$'000	IT Corporate products HK$'000	Others HK$'000	Total HK$'000
Revenue				
External sales	9,960,361	3,083,142	314,240	13,357,743
Segment profit	272,498	141,716	10,313	424,527
Other income				20,053
Finance costs				(31,983)
Unallocated head office and corporate expenses				(116,573)
Profit before tax				296,024
Segment assets	1,591,962	1,062,254	44,179	2,698,395
Unallocated assets:				
Pledged bank deposits				7,390
Bank balances and cash				41,694
Prepayments, deposits and other receivables				102,197
Plant and equipment				15,661
Property held for sale				411
Combined total assets				2,865,748
Segment liabilities	592,159	569,666	92,419	1,254,244
Unallocated liabilities:				
Other payables				92,736
Dividend payables				197,851
Income tax payables				52,072
Amount due to ultimate holding company				665,550
Bank borrowings				12,325
Combined total liabilities				2,274,778

B. NOTES TO THE FINANCIAL INFORMATION

8. SEGMENT INFORMATION (Continued)

	Seven months ended 31 July 2011 (Unaudited)			
	IT Consumer products HK$'000	**IT Corporate products** HK$'000	**Others** HK$'000	**Total** HK$'000
Revenue				
External sales	5,052,053	1,526,594	182,913	6,761,560
Segment profit	144,155	81,934	6,004	232,093
Other income				11,789
Finance costs				(9,421)
Unallocated head office and corporate expenses				(48,544)
Profit before tax				185,917

B. NOTES TO THE FINANCIAL INFORMATION

8. SEGMENT INFORMATION (Continued)

	Seven months ended 31 July 2012			
	IT Consumer products HK$'000	IT Corporate products HK$'000	Others HK$'000	Total HK$'000
Revenue				
External sales	5,629,792	2,357,718	452,054	8,439,564
Segment profit	127,173	126,293	10,761	264,227
Other income				1,376
Finance costs				(31,660)
Unallocated head office and corporate expenses				(45,085)
Profit before tax				188,858
Segment assets	1,514,448	1,174,139	11,205	2,699,792
Unallocated assets:				
Pledged bank deposits				7,762
Bank balances and cash				94,989
Prepayments, deposits and other receivables				129,764
Amount due from ultimate holding company				26
Plant and equipment				18,828
Property held for sale				405
Combined total assets				2,951,566
Segment liabilities	854,357	504,429	55,284	1,414,070
Unallocated liabilities:				
Other payables				115,915
Dividend payables				186
Income tax payables				13,734
Bank overdraft				59,175
Bank and other borrowings				630,450
Combined total liabilities				2,233,530

B. NOTES TO THE FINANCIAL INFORMATION

8. SEGMENT INFORMATION (Continued)

Other segment information:

	Year ended 31 December 2009				
	IT Consumer products HK$'000	IT Corporate products HK$'000	Others HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Impairment losses recognised on trade receivables	65	33	-	-	98
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Additions to plant and equipment	-	-	-	4,487	4,487
Depreciation	-	-	-	4,759	4,759
Loss on disposal of plant and equipment	-	-	-	29	29
Bank interest income	-	-	-	(1,161)	(1,161)
Finance costs	-	-	-	11,642	11,642
Income tax expenses	-	-	-	50,008	50,008

	Year ended 31 December 2010				
	IT Consumer products HK$'000	IT Corporate products HK$'000	Others HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Allowance for obsolete inventories	5,719	431	1,970	-	8,120
Reversal of impairment on trade receivables	(173)	(83)	-	-	(256)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Additions to plant and equipment	-	-	-	2,225	2,225
Depreciation	-	-	-	5,296	5,296
Gain on disposal of plant and equipment	-	-	-	(7)	(7)
Bank interest income	-	-	-	(1,233)	(1,233)
Finance costs	-	-	-	20,554	20,554
Income tax expenses	-	-	-	57,544	57,544

B. NOTES TO THE FINANCIAL INFORMATION

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued):

	Year ended 31 December 2011				
	IT Consumer products HK$'000	**IT Corporate products** HK$'000	**Others** HK$'000	**Unallocated** HK$'000	**Total** HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Allowance for obsolete inventories	4,457	1,563	127	-	6,147
Impairment losses recognised on trade receivables	957	335	27	-	1,319
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Additions to plant and equipment	-	-	-	7,555	7,555
Depreciation	-	-	-	5,444	5,444
Gain on disposal of plant and equipment	-	-	-	(250)	(250)
Bank interest income	-	-	-	(1,874)	(1,874)
Waiver of other payables	-	-	-	(1,111)	(1,111)
Finance costs	-	-	-	31,983	31,983
Income tax expenses	-	-	-	87,390	87,390

	Seven months ended 31 July 2011 (Unaudited)				
	IT Consumer products HK$'000	**IT Corporate products** HK$'000	**Others** HK$'000	**Unallocated** HK$'000	**Total** HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Impairment losses recognised on trade receivables	600	379	154	-	1,133
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Additions to plant and equipment	-	-	-	3,629	3,629
Depreciation	-	-	-	3,015	3,015
Gain on disposal of plant and equipment	-	-	-	(42)	(42)
Bank interest income	-	-	-	(1,003)	(1,003)
Finance costs	-	-	-	9,421	9,421
Income tax expenses	-	-	-	46,340	46,340

B. NOTES TO THE FINANCIAL INFORMATION

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued):

	Seven months ended 31 July 2012				
	IT Consumer products HK$'000	**IT Corporate products** HK$'000	**Others** HK$'000	**Unallocated** HK$'000	**Total** HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Reversal of allowance for obsolete inventories	(289)	(4,772)	-	-	(5,061)
Allowance for obsolete inventories	6,381	4,024	1,640	-	12,045
Impairment losses recognised on trade receivables	227	1,152	18	-	1,397
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Additions to plant and equipment	-	-	-	7,459	7,459
Depreciation	-	-	-	3,718	3,718
Loss on disposal of plant and equipment	-	-	-	3	3
Bank interest income	-	-	-	(631)	(631)
Finance costs	-	-	-	31,660	31,660
Income tax expenses	-	-	-	51,313	51,313

Geographical information

Since over 90% of Target Group's revenue from external customers is generated in PRC and over 90% of the assets of the Target Group are located in PRC, no geographic information presented.

Information about major customers

During the Track Record Periods and seven months ended 31 July 2011, none of the Target Group's revenue was derived from transactions with single external customer amounting to 10% or more of the Target Group's revenue.

B. NOTES TO THE FINANCIAL INFORMATION

9. OTHER INCOME

	Year ended 31 December			Seven months ended 31 July	
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2011 HK$'000 (Unaudited)	2012 HK$'000
Reversal of impairment on trade receivables	-	256	-		
Bank interest income	1,161	1,233	1,874	1,003	631
Exchange gain	118	2,161	4,248	2,844	-
Penalty and compensation income	285	1,094	1,876	202	289
Government subsidies					
- utilisation/amortisation of deferred income for the year (Note 27)	-	-	-	-	198
- grants related to expenses recognised as other gains (Note)	-	2,876	10,451	7,698	456
Gain on disposal of plant and equipment	-	7	250	42	-
Sales of scrap inventories	84	26	-	-	-
Waiver of other payables	-	-	1,111	-	-
Others	127	127	243	-	-
	1,775	7,780	20,053	11,789	1,574

Note: Government subsidies in respect of encouragement of expansion of enterprise were recognised at the time the Target Group fulfilled the relevant granting conditions.

B. NOTES TO THE FINANCIAL INFORMATION

10. FINANCE COSTS

	Year ended 31 December			Seven months ended 31 July	
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2011 HK$'000 (Unaudited)	2012 HK$'000
Interest on:					
Bank and other borrowings and overdraft wholly repayable within five years	24	110	2,735	1,377	4,563
Amount due to ultimate holding company	9,561	17,425	24,979	5,950	23,142
Interest expense on discount of bills receivables	6	71	-	-	-
Guarantee charges in respect of guarantees from a substantial shareholder of the ultimate holding company to suppliers, banks and other financial institution	2,051	2,948	4,269	2,094	3,955
	11,642	20,554	31,983	9,421	31,660

B. NOTES TO THE FINANCIAL INFORMATION

11. INCOME TAX

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Current tax:					
Provision for PRC income tax	47,512	56,480	87,536	46,486	51,313
Under (over) provision in prior years	2,496	1,064	(146)	(146)	-
	50,008	57,544	87,390	46,340	51,313

(i) Pursuant to the rules and regulations of the BVI, the Target Co BVI is not subject to any income tax in the BVI.

(ii) No provision for Hong Kong Profits Tax has been made for the subsidiary established in Hong Kong as the subsidiary did not have any assessable profits subject to Hong Kong Profits Tax during the Track Record Periods.

(iii) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of Changhong IT, Changhong IT Digital and Changhong IT Intelligence are 25% for the Track Record Periods.

Withholding tax

According to the joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui 2008 No. 1, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries to its foreign holding company from 1 January 2008 onwards. Before the completion of the Reorganisation on 5 March 2012, the holding company of the PRC subsidiaries of the Target Group is a domestic company and is not subject to the withholding tax. The PRC subsidiaries of the Target Group is subject to withholding tax since 5 March 2012. Deferred taxation has not been provided for in the Financial Information in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$361,662,000 as at 31 July 2012 as the Target Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not reverse in the foreseeable future.

11. INCOME TAX (Continued)

The income tax for the Track Record Periods can be reconciled to the profit before taxation per the combined statements of comprehensive income as follows:

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Profit before tax	185,099	200,144	296,024	185,917	188,858
Tax at domestic income tax rate of 25%	46,275	50,036	74,006	46,480	47,215
Tax effect of expenses not deductible for tax purpose	1,237	6,508	13,530	6	4,098
Tax effect of income not taxable for tax purpose	-	(64)	-	-	-
Under (over) provision in prior years	2,496	1,064	(146)	(146)	-
Income tax	50,008	57,544	87,390	46,340	51,313

B. NOTES TO THE FINANCIAL INFORMATION

12. PROFIT FOR THE YEAR / PERIOD

Profit for the year / period has been arrived at after charging (crediting):	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(Unaudited)	
(a) Staff costs, including directors' remuneration					
Salaries, wages and other benefits	73,952	108,272	156,301	64,842	66,891
Contribution to defined contribution retirement benefits scheme (note 31)	5,967	10,454	20,114	7,521	7,928
	79,919	118,726	176,415	72,363	74,819
(b) Other items					
Auditors' remuneration	208	252	397	276	485
Cost of inventories recognised as an expense	4,858,440	7,681,054	12,729,924	6,427,260	8,046,355
Allowance for obsolete inventories (included in cost of sales)	-	8,120	6,147	-	12,045
Reversal of allowance for obsolete inventories (included in cost of sales)	-	-	-	-	(5,061)
Impairment losses recognised on trade receivables (included in administrative expenses)	98	-	1,319	1,133	1,397
Depreciation of plant and equipment	4,759	5,296	5,444	3,015	3,718
Research and development expenses	765	1,498	2,446	1,581	2,206
Operating lease charges in respect of rented properties	5,391	6,110	6,765	3,747	3,873
Loss on disposal of plant and equipment	29	-	-	-	3
Exchange loss	-	-	-	-	2,359

13. DIRECTOR'S EMOLUMENT AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(a) Director's emolument

Mr. Tang Yun is the sole director of the Target Co BVI since its date of incorporation on 28 March 2011 to the end of the reporting period and there is no director's emolument was incurred during the Track Record Periods.

No emoluments were paid by the Target Group to the director of Target Co BVI as an incentive payment for joining the Target Group or as compensation for loss of office during the Track Record Periods.

B. NOTES TO THE FINANCIAL INFORMATION

13. DIRECTOR'S EMOLUMENT AND INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

(b) Individual with highest emoluments

Out of the five highest paid individuals in the Target Group, none was a director of the Target Co BVI during the Track Record Periods. The aggregate emoluments of five individuals with the highest emoluments for the Track Record Periods were as follows:

	Year ended 31 December			Seven months ended 31 July	
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2011 HK$'000 (Unaudited)	2012 HK$'000
Salaries, allowances and benefit in kind	10,394	22,219	28,999	4,629	6,354
Contribution to defined contribution retirement benefits scheme	125	145	175	150	143
	10,519	22,364	29,174	4,779	6,497

Their emoluments were within the following bands:

	Year ended 31 December			Seven months ended 31 July	
	2009 No. of employees	2010 No. of employees	2011 No. of employees	2011 No. of employees (Unaudited)	2012 No. of employees
HK$ nil to HK$1,000,000	-	-	-	3	1
HK$1,000,001 to HK$1,500,000	4	-	-	2	3
HK$1,500,001 to HK$2,000,000	-	-	1	-	1
HK$2,000,001 to HK$2,500,000	-	2	-	-	-
HK$3,000,001 to HK$3,500,000	-	2	-	-	-
HK$3,500,001 to HK$4,000,000	-	-	3	-	-
HK$4,500,001 to HK$5,000,000	1	-	-	-	-
HK$10,500,001 to HK$11,000,000	-	1	-	-	-
HK$16,500,001 to HK$17,000,000	-	-	1	-	-

No emoluments were paid by the Target Group to the five highest paid individuals as an incentive payment for joining the Target Group or as compensation for loss of office during the Track Record Periods.

14. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this Financial Information, is not considered meaningful.

15. PLANT AND EQUIPMENT

The Target Group

	Furniture, fixtures and equipments HK$'000	Motor vehicles HK$'000	Total HK$'000
COST			
At 1 January 2009	30,932	1,802	32,734
Additions	4,487	-	4,487
Disposal	(1,583)	(366)	(1,949)
Exchange difference	285	16	301
At 31 December 2009 and 1 January 2010	34,121	1,452	35,573
Additions	2,225	-	2,225
Disposal	(108)	-	(108)
Exchange difference	1,308	55	1,363
At 31 December 2010 and 1 January 2011	37,546	1,507	39,053
Additions	6,197	1,358	7,555
Disposal	(983)	(994)	(1,977)
Exchange difference	1,647	67	1,714
At 31 December 2011 and 1 January 2012	44,407	1,938	46,345
Additions	7,459	-	7,459
Disposal	(1,543)	-	(1,543)
Exchange difference	(721)	(27)	(748)
At 31 July 2012	49,602	1,911	51,513
ACCUMULATED DEPRECIATION			
At 1 January 2009	15,198	1,540	16,738
Charge for the year	4,703	56	4,759
Eliminated on disposal	(1,279)	(317)	(1,596)
Exchange difference	143	14	157
At 31 December 2009 and 1 January 2010	18,765	1,293	20,058
Charge for the year	5,247	49	5,296
Eliminated on disposal	(87)	-	(87)
Exchange difference	754	50	804
At 31 December 2010 and 1 January 2011	24,679	1,392	26,071
Charge for the year	5,302	142	5,444
Eliminated on disposal	(983)	(994)	(1,977)
Exchange difference	1,091	55	1,146
At 31 December 2011 and 1 January 2012	30,089	595	30,684
Charge for the period	3,529	189	3,718
Eliminated on disposal	(1,243)	-	(1,243)
Exchange difference	(464)	(10)	(474)
At 31 July 2012	31,911	774	32,685

15. PLANT AND EQUIPMENT (Continued)

	Furniture, fixtures and equipments HK$'000	Motor vehicles HK$'000	Total HK$'000
CARRYING VALUES			
At 31 December 2009	15,356	159	15,515
At 31 December 2010	12,867	115	12,982
At 31 December 2011	14,318	1,343	15,661
At 31 July 2012	17,691	1,137	18,828

Depreciation is provided so as to write off the cost of plant and equipment less their residual value, if any, using the straight line method over their estimated useful lives as follows:

Furniture, fixtures and equipment	5 to 10 years
Motor vehicles	5 years

16. INVESTMENTS IN SUBDIDIARIES

The Target Co BVI

	As at 31 December 2011 HK$'000	As at 31 July 2012 HK$'000
Unlisted equity interest, at cost	10	190,010

The subsidiaries had not issued any debt securities during the year ended 31 December 2011 and the seven months ended 31 July 2012 and at the end of both periods.

B. NOTES TO THE FINANCIAL INFORMATION

17. INVENTORIES

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Trading merchandises	456,197	700,684	1,447,135	1,413,668

During the seven months ended 31 July 2012, there was an increase in the net realisable values of inventories due to change in the market situation. As a result, a reversal of write-down of inventories of HK$5,061,000 has been recognised and included in cost of sales.

18. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables	478,248	842,807	928,711	947,369
Less: Allowance for trade receivables	(1,147)	(932)	(2,299)	(3,642)
	477,101	841,875	926,412	943,727
Bills receivables	1,955	49,742	86,662	19,160
	479,056	891,617	1,013,074	962,887

The Target Group does not hold any collateral over these balances.

18. TRADE AND BILLS RECEIVABLES (Continued)

Included in the balances are amounts due from fellow subsidiaries and amount due from ultimate holding company.

	As at 31 December			As at 31 July
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000
Amounts due from fellow subsidiaries	3,934	665	4,557	4,617
Amount due from ultimate holding company	767	767	-	20,665

The Target Group allows an average credit period of 30-180 days to its trade customers including the fellow subsidiaries and ultimate holding company. The following is an aged analysis of trade receivables, net of allowance for trade receivables presented based on the invoice date at the end of each reporting period:

	As at 31 December			As at 31 July
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000
Within 30 days	338,743	671,367	672,185	475,540
31 - 60 days	95,761	125,105	221,860	288,291
61 - 90 days	20,885	30,120	47,788	67,024
91 - 180 days	10,690	51,160	49,531	82,062
Over 180 days	12,977	13,865	21,710	49,970
	479,056	891,617	1,013,074	962,887

Before accepting any new customer, the Target Group assesses the potential customer's credit quality and defines credit limits by customer. Some of these new customers are required to pay certain amounts in advance as deposits.

Included in the Target Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$16,863,000, HK$36,092,000, HK$58,252,000 and HK$119,672,000 which were past due as at 31 December 2009, 2010, 2011 and 31 July 2012 respectively for which the Target Group has not provided for allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered fully recoverable.

18. TRADE AND BILLS RECEIVABLES (Continued)

Ageing of trade receivables based on the past due date which are past due but not impaired:

	As at 31 December			As at 31 July
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000
31 – 60 days	630	2,356	2,690	2,975
61 – 90 days	6,998	7,138	14,218	18,606
91 – 180 days	4,749	15,590	30,141	56,085
Over 180 days	4,486	11,008	11,203	42,006
Total	16,863	36,092	58,252	119,672

Included in trade and bills receivables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	As at 31 December			As at 31 July
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000
USD	3,007	2,068	6,462	6,705

Movement in the allowance for trade receivables

	As at 31 December			As at 31 July
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000
Balance at beginning of the year / period	1,039	1,147	932	2,299
Impairment losses recognised on trade receivables	98	-	1,319	1,397
Exchange difference	10	41	48	(54)
Reversal of impairment losses	-	(256)	-	-
Balance at the end of the year / period	1,147	932	2,299	3,642

18. TRADE AND BILLS RECEIVABLES (Continued)

Included in the allowance for trade receivables are individually impaired trade receivables with an aggregate balance of HK$1,147,00, HK$932,000, HK$2,299,000 and HK$3,642,000 respectively as at 31 December 2009, 2010, 2011 and 31 July 2012, which have been in severe financial difficulties.

As at 31 July 2012, the secured bank loans were secured by trade receivables of the Target Group with an aggregate carrying values of approximately HK$305,918,000. No trade receivables was pledged as at 31 December 2009, 2010 and 2011.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Deposits and other receivables	10,356	15,169	27,469	44,600
Other tax recoverable	-	-	74,728	85,164
Prepayments	120,274	101,776	238,186	323,237
	130,630	116,945	340,383	453,001

The Target Group does not hold any collateral over these balances.

20. PROPERTY HELD FOR SALE

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Property held for sale, at cost	-	-	411	405

The property held for sale represents an office premises situated in the PRC. The Target Group has an intention to sell the property rather than to hold the property to earn rentals or/and for capital appreciation at the date of acquisition of the property.

B. NOTES TO THE FINANCIAL INFORMATION

21. BANK BALANCES AND CASH / PLEDGED BANK DEPOSITS

Bank balances / pledged bank deposits

Bank balances carried interest at market rates range from 0.36% to 1.31% per annum during the Track Record Periods.

Pledge bank deposits carried interest at market rates range from 1.71% to 3.50% per annum during the Track Record Periods and represents deposits pledged to banks to secure banking facilities granted to the Target Group. Deposits amounting to approximately HK$19,753,000, HK$309,016,000 and HK$7,390,000 and HK$7,762,000 respectively as at 31 December 2009, 2010, 2011 and 31 July 2012 have been pledged to banks to secure short-term banking facilities granted to the Target Group and are therefore classified as current assets.

22. TRADE AND BILLS PAYABLES

Included in the balances are amounts due to fellow subsidiaries and amount due to ultimate holding company.

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Amounts due to fellow subsidiaries	-	1,790	178	-
Amount due to ultimate holding company	233	17	9	9

The following is an aged analysis of trade and bills payables, based on the invoice date:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Within 30 days	349,083	752,052	742,410	1,028,932
31 - 60 days	38,117	45,095	143,458	136,557
61 - 90 days	11,682	15,291	43,246	28,906
91 - 180 days	22,875	15,529	70,664	35,075
181 - 365 days	254	1,379	5,259	9,076
Over 1 year	671	132	3,492	3,807
Total	422,682	829,478	1,008,529	1,242,353

Included in trade payables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000
USD	31,828	89,902	152,932	173,272

The average credit period on purchase of goods is 30-110 days. The Target Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

B. NOTES TO THE FINANCIAL INFORMATION

23. OTHER PAYABLES

	As at 31 December			As at 31 July
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000
Other payables	36,693	90,202	91,559	114,080
Accrued expenses	14,067	16,692	56,955	38,780
Interest payables	538	934	1,177	1,835
	51,298	107,828	149,691	154,695

Included in the balances of other payables as at 31 July 2012 is amount due to a fellow subsidiary amounting to approximately HK$550,000 which was arising from the decoration services provided by a fellow subsidiary. The amount due to a fellow subsidiary is unsecured, non-interest bearing and repayable with one year. There was no balance of amount due to a fellow subsidiary as at 31 December 2009, 2010 and 2011.

24. CUSTOMER DEPOSITS

Included in customer deposits are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	As at 31 December			As at 31 July
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000
USD	-	-	1,072	246

25. AMOUNT DUE FROM / TO ULTIMATE HOLDING COMPANY / A SUBSIDIARY

The amount due to ultimate holding company was unsecured, interest bearing at fixed rates ranging from 5.10% - 6.89% per annum and repayable within one year except for an amount of approximately Nil, HK$47,164,000, Nil and Nil respectively as at 31 December 2009, 2010, 2011 and 31 July 2012 which are unsecured, non-interest bearing and repayable on demand.

The amount due from ultimate holding company and amount due to a subsidiary are unsecured, non-interest bearing and repayable on demand.

B. NOTES TO THE FINANCIAL INFORMATION

26. BANK AND OTHER BORROWINGS

	As at 31 December			As at 31 July
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000
Bank overdraft - unsecured	-	-	-	59,175
Bank borrowings	-	-	12,325	132,341
Other borrowings	-	-	-	498,109
	-	-	12,325	630,450
Secured	-	-	-	229,533
Unsecured	-	-	12,325	400,917
	-	-	12,325	630,450
Fixed interest rates	-	-	7.62%	5% - 9% p.a.

The Target Group's borrowings are all denominated in RMB, and all balances are repayable within one year. The borrowings were guaranteed by the ultimate holding company. As at 31 July 2012, the secured borrowings were secured by trade receivables of the Target Group. Details are stated in note 18.

Bank overdrafts carried interest at market rate of 6% per annum during the Track Record Periods.

27. DEFERRED INCOME

	As at 31 December			As at 31 July	
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2011 HK$'000	2012 HK$'000
Government grants raised during the year / period	-	-	-	-	17,043
Government grants amortised during the year / period	-	-	-	-	(198)
Exchange realignment	-	-	-	-	(251)
	-	-	-	-	16,594

During seven months ended 31 July 2012, the Target Group received government grants of approximately HK$4,711,000 towards the research and development expenditure. The amounts have been treated as deferred income and are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. This policy has resulted in a credit to income in the current period of approximately HK$198,000.

During seven months ended 31 July 2012, the Target Group received government grants of approximately HK$12,332,000 towards the acquisition of plant and equipment. The amounts have been treated as deferred income and transferred to income over the useful lives of the related assets. No amortisation was made during the Track Record Periods as the relevant plant and equipment has not yet been acquired.

B. NOTES TO THE FINANCIAL INFORMATION

28. SHARE CAPITAL

The Target Co BVI was incorporated on 20 March 2011 with an authorised share capital of USD50,000 divided into 50,000 shares of USD1 each. On the same date, 1 share of USD1 was allotted and issued at par. On 5 March 2012, another share of USD1 was allotted and issued at a price of HK$190,000,000 with share premium of HK$189,999,992. The issued share capital of the Target Co BVI was increased to US$2.00 (equivalent to approximately HK$16) comprising 2 ordinary shares of USD1 each.

For the purpose of this report, the share capital of the Target Group as at 1 January 2009, 31 December 2009, 2010 and 2011 represented the paid-in capital of Changhong IT amounting to approximately HK$193,240,000.

As mentioned in note 1, the Target Co BVI became the holding company of the Target Group since the completion of the Reorganisation on 5 March 2012.

29. RESERVE OF THE TARGET CO BVI

The reserve of the Target Co BVI as at 31 July 2012 represented its share premium arising from one share of USD1 allotted and issued at a price of HK$190,000,000 on 5 March 2012.

30. COMMITMENT

a) Operating lease arrangement – The Target Group

As at 31 December 2009, 2010 and 2011 and 31 July 2012, the Target Group leases certain of its premises and offices under operating lease arrangements. Leases contracts are negotiated and rentals are fixed for an initial period of one year to three years. Lease payments are usually increased annually to reflect market rentals. No provision for contingent rent and terms of renewal was established in the leases.

At the end of each reporting period, the total future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at 31 July
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000
Within 1 year	5,390	6,038	4,132	3,342
In the second to fifth year inclusive	5,641	2,393	944	1,516
	11,031	8,431	5,076	4,858

b) Capital commitments – The Target Group

The Target Group had the following capital commitment as at 31 December 2009, 2010, 2011 and 31 July 2012:

	As at 31 December			As at 31 July
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000
Capital expenditure contracted for but not provided for in the Financial Information in respect of expenditures on renovation:	-	-	4,605	-

B. NOTES TO THE FINANCIAL INFORMATION

31. RETIREMENT BENEFITS SCHEMES

Employees of the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Target Group with respect to the pension scheme is to make the required contributions.

The total costs charged to the combined statements of comprehensive income of approximately HK$5,967,000, HK$10,454,000 and HK$20,114,000, HK$7,521,000 and HK$7,928,000 for the year ended 31 December 2009, 2010, 2011 and seven months ended 31 July 2011 and 2012 respectively, represent contributions payable to these schemes by the Target Group during the Track Record Periods.

32. CONTINGENT LIABILITIES

The Target Group entered into labour service agreements separately with two employment agencies (the "Employment Agencies"), each an independent third party labour service company, to provide contractual workers for its production. Pursuant to the labour service agreement, the Employment Agencies will instruct these contractual workers to follow the direction of the Target Group's management for day-to-day work assignments. However, under the PRC Labour Contract Law, if each of the Employment Agencies violates the PRC Labour Contract Law and such violation results in damages to the contractual workers, the Target Group would be jointly and severally liable for the compensation payables to the contractual workers.

The Target Group has not paid the social insurance contribution and housing provident fund for these contractual workers in respect of the bonus paid by the Target Group to those contractual workers under the agreements made between the labour service company and these contractual workers.

The Target Group has recognised in the statements of comprehensive income the unpaid amount of social insurance of approximately HK$4,396,000, HK$7,736,000 and HK$14,914,000 and HK$2,750,000 for the years ended 31 December 2009, 2010 and 2011 and seven months ended 31 July 2012 respectively, and unpaid amount of housing provident fund of approximately HK$1,510,000, HK$2,637,000 and HK$5,110,000 and HK$1,137,000 respectively for the years ended 31 December 2009, 2010 and 2011 and seven months ended 31 July 2012 respectively. As at 31 July 2012, the Target Group had not received any notice from the relevant housing fund or social security authorises ordering the Target Group to make outstanding payments or rectification, or any administrative penalties from the relevant authorities. The relevant authorities may request the Target Group at any time to pay up the outstanding amount of the social insurance or housing provident fund contributions and/or impose fine of up to three times of the unpaid amount of social insurance and housing provident fund on the Target Group if the above mentioned unpaid amounts are not settled within the time specified. The fine will be recognised in the statements of financial position if the Target Group does not settle the unpaid amounts within a specific time up on request. During the Track Record Periods and at the date of this report, no such request was received by the Target Group.

33. DIVIDENDS

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Dividends recognised as distribution during the years ended 31 December 2009, 2010, 2011 and seven months ended 31 July 2011 and 2012	-	34,422	193,713	-	-

34. SHARE-BASED PAYMENT TRANSACTIONS

Rights for subscription of 10% of the registered capital of a subsidiary of the Target Co BVI:

Pursuant to the investment agreement of Changhong IT, which is a subsidiary of the Target Co BVI, dated 28 September 2004, the rights (the "Rights") to subscribe 10% of the registered capital of Changhong IT amounting RMB20,000,000 at their par value (the "Registered Capital") were granted on 13 October 2004, being the date of establishment of Changhong IT, to Mr. Zhu Jianqiu ("Mr. Zhu"), the chief executive officer employed by Changhong IT on 13 October 2004, to subscribe for the Registered Capital for the eligible management team. The Rights were vested immediately on the grant date.

No consideration was payable for the Rights. The Rights may be exercised at any time from its date of grant to the date of being fully exercise. The Rights had been exercised by Mr. Zhu on 17 July 2006, 13 January 2010 and 13 July 2010 and the amounts of registered capital paid up on those dates are approximately RMB1,215,000, RMB4,196,000 and RMB14,589,000 respectively. The Rights have been fully exercised on 13 July 2010.

The following table discloses the movements of the unsubscribed registered capital under the Rights during the Track Record Periods:

Year/period	Outstanding at the beginning of the year/period	Exercised during the year/period	Outstanding at the end of the year/period	Exercisable at the end of the year/period
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2009	18,785	-	18,785	18,785
Year ended 31 December 2010	18,785	(18,785)	-	-
Year ended 31 December 2011	-	-	-	-
Seven months ended 31 July 2012	-	-	-	-

The exercise price of the Rights exercised during the Track Record Periods was at the par value of the registered capital.

35. RELATED PARTIES TRANSACTIONS (Continued)

Name of company	Nature of transaction	Notes	Year ended 31 December 2009 HK$'000	2010 HK$'000	2011 HK$'000	Seven months ended 31 July 2011 HK$'000 (Unaudited)	2012 HK$'000
A substantial shareholder of the ultimate holding company							
四川长虹电子集团有限公司	Guarantee charges	(ii)	2,051	2,948	4,269	2,094	3,955
	Guarantee from a substantial shareholder of the ultimate holding company to suppliers	(ii)					
	- maximum amount during the year		699,223	938,684	1,397,007	1,352,234	1,093,410
	- utilised during the year		164,245	140,223	333,037	566,304	59,242
Subsidiaries of the ultimate holding company							
四川长虹网络科技有限责任公司	Sales of goods	(iii)	-	561	20	20	-
	Purchase of goods	(iii)	-	120	482	22	5
广东长虹数码科技有限公司	Purchase of goods	(iii)	4,566	3,991	(84)	(82)	-
四川虹信软件有限公司	Sales of goods	(iii)	3,357	4,207	4,684	4,592	3,476
四川长虹信息技术有限责任公司	Sales of goods	(iii)	-	-	306	139	75
四川虹视显示技术有限公司	Sales of goods	(iii)	-	30	-	-	-
四川虹欧显示器件有限公司	Sales of goods	(iii)	-	22	12	-	25
四川长虹置业有限公司	Sales of goods	(iii)	-	-	17	17	-
四川长虹包装印务有限公司	Purchase of goods	(iii)	-	-	3	3	-
四川长虹国际酒店有限责任公司	Sales of goods	(iii)	-	-	22	-	-
北京长虹科技有限公司	Sales of goods	(iii)	-	-	-	-	862
	Rental expenses	(iii)	-	-	-	-	1,080
四川长虹照明技术有限公司	Decoration fee	(iii)	-	-	-	-	550

B. NOTES TO THE FINANCIAL INFORMATION

35. RELATED PARTIES TRANSACTIONS (Continued)

Notes:

(i) Sichuan Changhong, the ultimate holding company of the Target Co BVI.

(ii) 四川長虹電子集團有限公司 holds approximately 23% equity interest of Sichuan Changhong.

(iii) Sichuan Changhong has controlling interests in these companies.

(b) Key management personnel remuneration

No remuneration was paid to key management personnel during the Track Record Periods.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group, the Target Co BVI or any of its subsidiaries have been prepared in respect of any period subsequent to 31 July 2012.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong