2012
Annual Report

HAO WEN HOLDINGS LIMITED
皓文控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8019

Characteristics of the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This annual report, for which the directors (the "Directors") of Hao Wen Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this annual report misleading.

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CORPORATE INFORMATION

Directors

Executive Directors

Chow Yik
Hu Yangxiong
Lee Cheuk Yue, Ryan
Leung King Fai

Independent Non-Executive Directors

Lam Kai Tai
Wong Ting Kon
Yeung Mo Sheung, Ann

Chief Executive Officer

Hu Yangxiong

Company Secretary

Leung King Fai

Assistant Company Secretary

Codan Trust Company (Cayman) Limited

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Unit 2707, China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Auditors

HLB Hodgson Impey Cheng Limited
31st Floor, The Landmark
11 Pedder Street
Central
Hong Kong

Compliance Officer

Hu Yangxiong

Authorised Representatives

Hu Yangxiong
Leung King Fai

Qualified Accountant

Leung King Fai

Legal Advisor on Cayman Laws

Conyers Dill & Pearman, Cayman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Ltd.
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

in Hong Kong
The Hongkong and Shanghai Banking Corporation Limited

Gem Stock Code

8019

CHAIRMAN'S STATEMENT

For and on behalf of the board of directors (the "Board") of Hao Wen Holdings Limited (the "Company") together with its subsidiaries (the "Group"), I am pleased to present to all shareholders the annual report of the Group for the year ended 31 December 2012.

Turnover for the year was approximately RMB78,212,000, which represented an increase of approximately 90% as compared with that of 2011. The Group recorded a profit of approximately RMB17,606,000 for the year due mainly to the disposal of subsidiaries.

Given the fierce competition in the pharmaceutical industry in Mainland China and the poor performance of the Group's pharmaceutical products business, the Company disposed its subsidiary involved in the manufacturing and sales of pharmaceutical products. In order to improve the results of the Group's pharmaceutical products business, the Directors envisaged that substantial amount of additional resources would be required for (i) the development of new pharmaceutical products to meet the stringent approval standards so as to expand and diversify the Group's product range; and (ii) market development in the highly competitive pharmaceutical industry in the PRC. As the total liabilities of the Group as at 31 December 2011 was approximately RMB219.09 million (equivalent to approximately HK$269.45 million), the Directors do not consider that it is financially viable for the Group to pursue such development plan. Any increase in borrowings to finance the development plan would have a negative effect on the gearing ratio and would further increase the finance costs of the Group. It is also anticipated that successful fund raising for the future development of such a loss making business may not be easy to achieve. Notwithstanding that measures had been implemented in the past years to promote and improve the sales of the Group's pharmaceutical products, the results were not satisfactory. The Group's pharmaceutical products business had incurred losses for years. Apart from this, the Group also encountered difficulties in obtaining approvals for its new pharmaceutical products from the relevant authorities in Mainland China that has tightened the approval standards. In view of such difficulties, the Directors are not sure when the pharmaceutical products business will turn around. The Group will concentrate on its business in the trading of biodegradable food containers and industrial packaging products in Hong Kong.

In order to improve the operation results, the Group will continue to improve the quality of existing products. In addition, the Group will continue to look for other new investment and cooperation opportunities so as to broaden the income base and to strengthen the profitability, as well as minimising the performance risk of the Group.

On behalf of the Board, I would like to extend my appreciation to shareholders of the Company for their continued support and to our staff for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the Group's customers, suppliers, bankers, lawyers and auditors for their trust and support to the Group.

Chow Yik
Chairman

Hong Kong, 25 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

Operation review

During the year under review, the Group discontinued the production and sales of the medicines known as "Plasmin Capsule" and "Puli Capsule" in Mainland China and continued to engage in trading of biodegradable containers in Hong Kong.

The biodegradable containers and disposable industrial packaging products are traded under the brand name "Earth Buddy". The materials used to produce such products are mainly agricultural waste, such as sugar cane dregs (a side-product of sugar refinery), straw, wheat stalk, reed and bamboo. Our biodegradable products are 100% biodegradable to avoid environmental and aesthetic pollution. in this sense, our biodegradable products are truly environmental friendly as they are produced by recycling waste materials into useful products, unlike some of our competitors, who make their disposable containers of papers, which results in major global deforestation, or edible materials, such as corn starch.

Financial review

During the year under review, the Group recorded an audited consolidated turnover of approximately RMB78,212,000 (2011: RMB41,165,000), which represented an increase of approximately 90% as compared with that of 2011. The increase in turnover was mainly due to the discontinuation of the production and sales of the medicines known as "Plasmin Capsule" and "Puli Capsule" in Mainland China, the Group focuses on its business in trading of brodegradeble so as to improve the business performance, which represented approximately 99% of the consolidated turnover of the Group for the financial year 2012.

The Group's audited consolidated profit for the year was approximately RMB17,606,000 (2011: RMB47,543,000). The increase in gain was mainly due to the profit on disposal of subsidiaries of RMB66,344,000.

The selling and distribution expenses decreased by 99% to RMB4 as compared to last year. It was mainly due to the decreased in advertising and promotion expenses.

The general and administrative expenses decreased by 12% to RMB27,517,000 as compared to last year. It was mainly due to the stricter control on the Group's office expenses.

Net finance expenses increased by 72% to RMB12,143,000 (2011: RMB7,051,000) It was mainly due to the increase in interest on convertible notes and interest on promissory notes.

After the discontinuation of the production and sale of the medicines known as "Plasmin Capsule" and "Puli Capsule" in Mainland China, the Group mainly focuses on the trading of biodegradable containers in Hong Kong.

The Group recorded approximately RMB78,127,000 (2011: RMB40,366,000) from the sales of biodegradable containers and industrial packaging products representing approximately 99% of the consolidated turnover of the Group during the year. Also, the Group recorded approximately RMB85,000 (2011: RMB829,000) from the distribution income of cosmetics exclusive rights representing 1% of the consolidated turnover of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Furthermore, the Company will review regularly and closely monitor the market trend of the industry and the performance of our biodegradable products.

The Directors believed that the above-mentioned measures will improve the market share of the Group's products and thus the returns to shareholders of the Company.

Liquidity and Financial Resources

The Group generally finances its operations through internally-generated cash flows. As at 31 December 2012, the balance of cash and cash equivalents amounted to approximately RMB4,569,000 (2011: RMB12,010,000). With the limited available resources and due to the fair operating results during the year, the Directors expected that the Group might depend on further financing from its shareholders and bankers to finance its business operations and to achieve its business objectives.

Total bank and other borrowings of the Group as at 31 December 2012 are approximately RMBNil (2011: RMB55,000,000) comprising of secured and unsecured other borrowings.

The Group's gearing ratio as at 31 December 2012 is 103% (2011: 99%), which is calculated by dividing total liabilities of RMB130,869,000 over total assets of the Group of RMB127,194,000.

As at 31 December 2012, the net current liabilities of the Group is RMB115,043,000 (2011: net current liabilities of RMB60,343,000) and the current ratio of the Group was approximately 0.1 times (2011: 0.4 times).

Capital Raising

The Company had no capital raising activity during the year.

Charges on Group Assets

At 31 December 2012 and 2011, none of the assets of the Group has been pledged to secure any loan granted to the Group.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars and its convertible notes and promissory notes are denominated in Hong Kong dollars. The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

MANAGEMENT DISCUSSION AND ANALYSIS

Major Events During the Year Under Review

Material acquisition and disposals

On 16 June 2012, the Company, as the seller, entered into a Sale and Purchase Agreement (the "Agreement") with the 山西常春藤醫藥科技發展有限公司 (Shanxi Chang Chuan Teng Medical Technology Development Company Limited*), an independent third party (the "Purchaser"), pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Company's entire interest in Garner International Investments Limited ("Garner"), a wholly owned subsidiary of the Company, for a total consideration of HK$3,000,000. Pursuant to the Agreement, the Company also agreed to irrevocably and unconditionally waive the outstanding amount owing by the Garner and its subsidiaries to the Company as at the date of Completion. All conditions set out in the Agreement have been fulfilled and the completion of this transaction took place on 10 October 2012. The gain on disposal of subsidiaries recorded was approximately RMB66,344,000.

Profit Guarantee

On 14 December 2009, the Company entered into an agreement with Wu Ching Por, an independent party to acquire 100% issued share capital of Jin Hao Limited ("Jin Hao") for an aggregate consideration of HK$9,000,000. Jin Hao is an investment holdings company and its subsidiaries are mainly involved in Health Spa Business in China. The transaction was completed on 5 February 2010 and the profit guarantee was met on 30 September 2012. Guaranteed Profit of not be less than HK$2,000,000 was generated during the period from 1 October 2010 to 30 September 2012.

On 14 December 2009, the Company entered into an agreement with Cosmetics Holdings Limited, an independent party to acquire 100% issued share capital of Merry Sky Holdings Limited ("Merry Sky") for an aggregate consideration of HK$10,000,000. Merry Sky is involved in distribution of cosmetic and personal care products. The transaction was completed on 8 February 2010 and the profit guarantee was met on 7 February 2012. Guaranteed distribution fee of not be less than HK$2,000,000 was generated during the period from 8 February 2010 to 7 February 2012.

On 24 December 2010, Premium Stars Investments Limited ("PS"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Talent Keen Limited ("TK") and TK's guarantor, Mr. Choy Kai Chung Andy, pursuant to which PS conditionally agreed to acquire from TK the entire share capital of Smart Courage Limited at a total consideration of HK$180,000,000. The transaction was completed on 27 May 2011 and the profit guarantee was met on 30 September 2012. Reference Profit of HK$12,000,000 was generated during the period from 1 October 2011 to 30 September 2012. Expenses, costs, management fee and other expenditures allocated from the Company and amortisations or impairments determined by the company are excluded from the calculation of Reference Profit.

MANAGEMENT DISCUSSION AND ANALYSIS

Major Events After Year Ended

Material acquisition and disposals

On 22 February 2013, Lucky River Limited, a subsidiary of the Company (the "Vendor"), entered into a Sale and Purchase Agreement (the "Agreement") with San Cheng Song Investment Company Limited, an independent third party (the "Purchaser"), pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase the Company's entire interest in 珠海奧美斯美容有限公司 ("Zhuhai Aomeisi Beauty Treatment Company Limited"), a wholly owned subsidiary of the Company, for a total consideration of HK$8,500,000. The completion of the transaction took place on 19 March 2013.

Significant Investments

Save as disclosed above, the Group had no significant investments during the year.

Capital Structure

There has been no charge in the capital structure of the Company during the year.

Convertible Notes

On 27 May 2011, upon completion of acquisition of Smart Courage Limited, the Company issued convertible notes with a principal amount of HK$120,000,000 (equivalent to approximately RMB100,000,000). Details of the convertible notes are set out to in note 27 to the accompanying consolidated financial statements.

Employee Information

Currently, the Group has about 20 full-time employees (2011: 130 full-time employees) working in Hong Kong and in Mainland China. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The staff costs, including directors' emoluments, were approximately RMB9,778,000 for the year under review (2011: RMB13,733,000).

Contingent Liabilities

As at 31 December 2012, the Group had no contingent liabilities (2011: Nil).

Business Outlook and Prospects

The Directors intend to focus on the biodegradable products business by penetrating and developing the European market that has a population which, on average, has a higher level of awareness of environmental issues. The Group has intention to develop the worldwide market for its biodegradable products. The Group is actively seeking strategic partners in different geographical regions to expand its business through business cooperation in various forms including technology transfer and business joint ventures. The goal of the Group is to build a sustainable and profitable global business while help protect and enhance the global environment. At present, the Group's biodegradable products are manufactured by subcontracting factories. In the event that the Group has adequate financial resources, the Group has intention to acquire or set up its own factory for the manufacturing of the biodegradable products.

DIRECTORS PROFILES

Executive Directors

Mr. Chow Yik, aged 31, is the Chairman of the board of director, Mr. Chow obtained the degree of Bachelor of Engineering, majoring in Electronic and Communication Engineering, from the City University of Hong Kong. He is highly experienced in commercial businesses. He founded the Vision Century Company in 2003. Moreover, since 2005, Mr. Chow has been the sales director and executive director of the British electronic company, Air Audio Distribution (HK) Ltd.

Mr. Hu Yangxiong, aged 52, is the Chief Executive Officer of the Company and joined the Group in July 2009. Mr. Hu graduated from Zhengzhou Airline Industry Management Institute, Beijing Airline, Spaceflight University and Graduate School of the Chinese Academy of Social Sciences with major in Financial Management, Engineering Management and Economic Laws respectively. He is also qualified as CPA of China and Advanced Accountant. Mr. Hu is currently a director of New Taohuayuen Culture Tourism Co. Ltd., the shares of which are listed on the OTC Bulletin Board in the United States. He was an executive director of China Golden Development Holdings Limited which shares are listed in The Stock Exchange of Hong Kong Limited during the period from March 2006 to March 2010.

Mr. Lee Cheuk Yue, Ryan, aged 30, graduated with distinction from the University of Virginia McIntire School of Commerce with a Bachelor of Science in Commerce degree concentrating in Finance and Accounting and second major in Economics from the College of Arts and Science. Mr. Lee has over 6 years' experience in the investment banking industry and had held various structuring and marketing sales positions in Banc of America Securities LLC in New York and Deutsche Bank AG in Hong Kong. Mr. Lee is also a Chartered Financial Analyst holder since 2007.

Mr. Leung King Fai, aged 41, graduated from Deakin University with a Bachelor's degree in Commerce. Mr. Leung is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants. He joined the Group in November 2005. He is an Independent Director of Biostar Pharmaceuticals Inc., a company listed on NASDAQ Stock Market.

Independent Non-executive Directors

Mr. Lam Kai Tai, aged 45, was educated at U.C. Berkeley and University of San Francisco as Finance major. in 1997, Mr. Lam joined First Yuanta Securities Ltd. in 2003, Mr. Lam joined Galaxy Entertainment Group (Macau) as Project Manager to oversee the construction and development of Waldo Hotel, Grand Waldo Hotel, Starworld Hotel and Galaxy Macau. Mr. Lam has more than 10 years of experience in project management and merger and acquisition.

Mr. Wong Ting Kon, aged 42, holds a Bachelor degree in Commerce from University of Windsor, Canada. He is a Certified Public Accountant (Practising) of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Accountants. He is currently a Partner of Chan Wong & Company C.P.A..

Ms. Yeung Mo Sheung, Ann, aged 48, joined the Group in 2011. Ms. Yeung holds a Bachelor degree of Retail Marketing with honours in the United Kingdom and a Diploma in Marketing from The Chartered Institute of Marketing. She pursued her further study on legal course and has been awarded a Diploma in Legal Practice in the United Kingdom in 1998 and is presently a partner of Messrs. Wong & Wong, Solicitors, a legal firm in Hong Kong. Ms. Yeung currently is an independent non-executive director of Success Universe Group Limited (formerly known as Macau Success Limited), a company listed on The Stock Exchange of Hong Kong Limited.

CORPORATE GOVERNANCE REPORT

Corporate Governance

The Company is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and its shareholders, and consistent with the "Code on Corporate Governance Practices" (the "CG Code") set out in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). The Group has considered the CG Code and has put in place corporate governance practices to meet the code provisions. The corporate governance principles of the Company emphasize a quality board, sound internal controls, and transparency and accountability to all shareholders.

Throughout the financial year ended 31 December 2012, except for deviations from code provisions A.4.1 and C.2 which is explained in paragraphs A.2. A.4 and C.2 below, the Group has complied with all code provisions.

A Directors

A.1 The Board

We are governed by the Board which assumes the responsibility for leadership and control of the Company. Our Directors are collectively responsible for promoting the success of the Company by developing the strategic direction of the Group and directing and supervising the affairs of the Company.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in its annual and interim reports, other price-sensitive announcements, other financial disclosures as required under the GEM Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements. The Board is also required to approve acquisitions or disposals and connected transactions within the meaning of Chapter 20 of the GEM Listing Rules that require notification or approval under the GEM Listing Rules.

The Board has a fiduciary duty and statutory responsibility towards the Group and is directly accountable to the shareholders. Other responsibilities and matters reserved to the Board are set out in paragraph D.1 below.

The Board meets regularly, normally four times each year with a meeting scheduled at approximately three month intervals and additional meetings would be arranged if and when necessary. The dates of regular Board meetings for each year are normally made available to all Directors at the beginning of the year to provide sufficient notice to give all Directors an opportunity to attend. Regulars meetings are for reviewing and approving the financial and operating performances of the Group as well as considering and approving the overall strategies and policies of the Group. Special Board meetings will be held when necessary. Matters on transactions where Directors are considered having a conflict of interest or material interests would not be dealt with by way of written resolutions and a separate Board meeting shall be held where independent non-executive Directors who have no interests should be present at the meeting. Directors having a conflict of interest or material interests in a transaction before the meeting of the Board will declare his interest therein in accordance with the articles of association of the Company, shall abstain from voting on the resolution and shall not be counted in the quorum present at such Board meeting. Such declaration of interests will be duly noted in the minutes of the relevant Board meeting.

CORPORATE GOVERNANCE REPORT

Notices are given to all the Directors for attending regular Board meetings approximately fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given. Board papers, together with all appropriate information are sent to all Directors at least three (3) days before each Board meetings to the extent practicable.

Board meetings involve the active participation, either in person or through other electronic means of communication, by all of the Directors. The Company Secretary assists in preparing the meeting agenda, and each Director may request the inclusion of items in the agenda. Directors are also consulted to suggest matters to be included in the agenda for all regular meetings of the Board.

Minutes of the Board meetings are recorded in detail and draft minutes are circulated within a reasonable time after the meeting to all Directors for their review and comments before being approved by the Board. All the minutes of the meetings are properly kept by the Company Secretary and are available for inspection by the Directors during normal office hours.

Participation of individual Directors at Board meetings in 2012 is as follows:

Number of meetings	6
Executive directors:	
Mr. Zhao Borui (Note)	0
Mr. Hu Yangxiong	5
Mr. Chow Yik	6
Mr. Leung King Fai	6
Mr. Lee Cheuk Yue, Ryan	5
Independent non-executive director:	
Mr. Lam Kai Tai	5
Mr. Wong Ting Kon	5
Ms. Yeung Mo Sheung, Ann	5
Average attendance rate	77%

Notes:

Mr. Zhao Borui retired as an executive Director on 4 May 2012.

CORPORATE GOVERNANCE REPORT

A.2 Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Chow Yik and Mr. Hu Yangxiong respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

A.3 Board composition

Currently, the Board comprises Seven Directors: Four executive Directors and three independent non-executive Directors. The current composition of the Board is as follows:

Membership of Board Committee(s):

Executive Directors:	
Mr. Chow Yik	—
Mr. Hu Yangxiong	Member of the Remuneration Committee
Mr. Lee Cheuk Yue, Ryan	—
Mr. Leung King Fai	Member of the Nomination Committee
Independent non-executive Directors:	
Mr. Lam Kai Tai	Chairman of the Audit Committee Chairman of the Remuneration Committee Chairman of the Nomination Committee
Mr. Wong Ting Kon	Member of the Audit Committee Member of the Remuneration Committee Member of the Nomination Committee
Ms. Yeung Mo Sheung, Ann	Member of the Audit Committee

The GEM Listing Rules require every listed issuer to have at least three independent non-executive Directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Mr. Wong Ting Kon is a Certified Public Accountant (Practising) of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Accountants. He is currently a partner of Chan Wong & Company, C.P.A.

The Company has received from each of the independent non-executive Directors an annual confirmation of his/ her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Board has assessed the independence of all the independent non-executive Directors and is satisfied of their independence. None of the independent non-executive Directors of the Company has served the Company for 9 years or more.

The Board members do not have any family, financial or business relations with each other. The biographies of our Directors are set out on page 9 of this annual report.

The list of Directors is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

CORPORATE GOVERNANCE REPORT

A.4 Appointment, re-election and removal of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 stipulates that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of the non-executive Directors (including independent non-executive Directors) of the Company were appointed for a term from the date of their respective appointment up to the date of the annual general meeting of the Company for the year ended 31 December 2011. Non-executive Directors (including independent non-executive Directors) of the Company do not have a specific term of appointment. As the appointment of non-executive Directors are subject to the retirement by rotation provisions in the articles of association of the Company, the Board considers that it is not necessary to appoint the non-executive Directors for a specific term. At every annual general meeting, one-third of the Directors for the time being, or if their number is not three or in a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation according to the articles of the Company. All Directors, including those appointed for a fixed term, are subject to the retirement by rotation provision in the articles of association of the Company.

A Director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting. A Director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting.

The Board has established a Nomination Committee on 18 November 2009 with written terms of reference. The Nomination Committee comprised of Mr. Lam Kai Tai and Mr. Wong Ting Kon, both of whom are independent non-executive Directors, and Mr. Leung King Fai, an executive Director. Mr. Lam Kai Tai is the chairman of the Nomination Committee. The Nomination Committee has held 2 meetings during the year.

The Nomination Committee is responsible for reviewing Board composition, identifying suitable candidates for directorship, assessing the independence of independent non-executive Directors, making recommendations to the Board regarding any proposed appointment or re-appointment. The Nomination Committee follows a formal, considered and transparent procedure for the appointment of new Directors to the Board. The appointment of a new Director is the collective decision of the Board, taking into consideration the recommendation of the Nomination Committee and the relevant candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a Director must be able to meet the standards set out in Rules 5.01 and 5.02 of the GEM Listing Rules. A candidate who is to be appointed as an independent non-executive Director must also meet the independence criteria set out in Rule 5.09 of the GEM Listing Rules. Further appointment of independent non-executive Director who has serves more than 9 years should be subject to a separate relationship to be approved by shareholders and the Board would consider and set the reason why such independent non-executive Director continues to be independent and should be elected.

CORPORATE GOVERNANCE REPORT

To comply with the code provision A.4.2 which states that every Director of the Company should be subject to the rotation requirement at least once every three years and in accordance with the articles of association of the Company, Mr. Leung King Fai, Mr. Lee Cheuk Yue, Ryan and Mr. Chow Yik will retire by rotation at the forthcoming annual general meeting of the Company to be held on 6 May 2013 and being eligible have offered themselves for re-election at the annual general meeting.

A.5 Responsibilities of Directors

Each newly appointed Director is provided with a package of orientation materials setting out the required duties and responsibilities of Directors under the GEM Listing Rules and other relevant statutory requirements of Hong Kong. An orientation as to a Director's duties and obligations under the GEM Listing Rules and relevant legislations will be arranged for all newly appointed Directors. Newly appointed Directors will also receive an introduction on the Company's operation and business. Our Directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. Our Directors will also be updated from time to time on the business development and operation plans of the Company. All our Directors are encouraged to participate in continuing professional development seminars and/or courses to update their skills and knowledge on the latest development or changes in the relevant statutes, Listing Rules and corporate governance practices.

According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listing company in compliance with the Revised CG Code on continuous professional development during the Year.

	Corporate governance, rules and regulations (including directors' duties)	Financial, management and other business skills and knowledge
Executive Directors		
Mr. Chow Yik	√	√
Mr. Hu Yangxiong	√	√
Mr. Lee Cheuk Yue, Ryan	√	√
Mr. Leung King Fai	√	√
Mr. Zhao Borui (Note)	X	X
Independent Non-executive Directors		
Mr. Lam Kai Tai	√	√
Mr. Wong Ting Kon	√	√
Ms. Yeung Mo Sheung, Ann	√	√

Note:

Mr. Zhao Borui retired as an executive Director on 4 May 2012.

CORPORATE GOVERNANCE REPORT

Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company.

The Company has adopted the standard set out in Rules 5.48 to 5.67 (the "Model Code") of the GEM Listing Rules, in relation to the dealings in securities of the Company by the Directors.

Having made specific enquiry of all Directors, each Director of the Company has confirmed that he has complied with the standards set out in the Model Code during the year ended 31 December 2012.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Code for Securities Transactions by Employees") for securities transactions by employees of the Company, its subsidiaries and its holding company (including Directors of the Company's holding company and its subsidiaries), who because of such office or employment, are likely to be in possession of unpublished pricesensitive information of the Company or its securities.

A.6 Supply of and access to information

With respect to regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all Directors in a timely manner as permitted under the circumstances. Notices are given to all the Directors for attending regular Board meetings fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given. It has been the practice of the Board and accepted by all members of the Board that relevant information of Board meetings will be sent to all Directors three (3) days in advance of the relevant meetings or any reasonable time before such meetings where it is not practicable to send out the information three (3) days in advance.

Members of the management have been reminded that they have an obligation to supply the Board and the Board committees with adequate information on a timely basis to enable each of them to make informed decisions. The Board and each Director have separate and independent access to the Group's senior management for information on the latest developments and financial position of the Company and other information and materials necessary to enable the Directors to make informed decisions of the matters to be considered at the Board meetings. The Compliance Officer, the Qualified Accountant and the Company Secretary attend all regular Board meetings and when necessary other Board meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company. Mr. Hu Yangxiong, an executive Director is currently the Compliance Officer and Mr. Leung King Fai, an executive Director is the Qualified Accountant and the Company Secretary.

All Directors are entitled to have access to Board papers, minutes and related materials.

CORPORATE GOVERNANCE REPORT

B Remuneration of Directors and Senior Management

B.1 The level of remuneration and disclosure

The Remuneration Committee was established on 8 August 2006 in accordance with the CG Code. During 2012, the Remuneration Committee has met 2 times which were attended by all its members. The existing members of the Remuneration Committee are Mr. Lam Kai Tai and Mr. Wong Ting Kon, both of whom are independent non-executive Directors and Mr. Hu Yangxiong, an executive Director. Mr. Lam Kai Tai is the chairman of the Remuneration Committee. The Terms of Reference of the Remuneration Committee are adopted with reference to the CG Code, including the specific duties set out in code provision B.1.3(a) to (f) of the CG Code.

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's policy and structure for all remuneration of Directors and senior management. The Remuneration Committee is authorised to seek any information it requires from any employee of the Group and has the power to request the executive Directors and other persons to attend its meetings. The Remuneration Committee is also authorised to obtain outside professional advice and to secure the attendance of other persons with relevant experience and expertise if it considers as necessary.

The work performed by the Remuneration Committee during 2012 included reviewing and approving the remuneration package of the Directors (including the three independent non-executive Directors) and the senior management of the Company.

During the process of consideration, no individual Director will be involved in decisions relating to his own remuneration.

Full minutes of the Remuneration Committee meeting are kept by the Company Secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are sent to all members of the Remuneration Committee for comments and approval.

The Remuneration Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on both of the website of the Company and the website of Stock Exchange.

CORPORATE GOVERNANCE REPORT

C Accountability and Audit

C.1 Financial reporting

Management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval.

The Directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing financial statements for each financial period, that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2012, the Directors have:

— approved the adoption of all applicable International Financial Reporting Standards which are issued by the International Accounting Standards Board;

— selected and applied consistently appropriate accounting policies;

— made judgments and estimates that are prudent and reasonable; and

— prepared the accounts on a going concern basis.

The Board is accountable to its shareholders for a clear and balanced assessment of the Company's financial position and prospects. In this regard, the Directors' responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements.

Financial results of the Group for the year ended 31 December 2010, the three months ended 31 March 2011 and the six months ended 30 June 2011 have not been published within the timeframe stipulated in Rules 18.66, 18.78 and 18.79 of the GEM Listing Rules. The final results for the year ended 31 December 2010 was published on 8 April 2011 and the revised final results for the year ended 31 December 2010 was published on 15 September 2011. The publication of the quarterly results for the three months ended 31 March 2011 and the interim results for the six months ended 30 June 2011 have been delayed to until 16 September 2011 and 19 September 2011, respectively. The delay in the publication of the final results for the year ended 31 December 2010, the dispatch of the annual report for the year ended 31 December 2010 and the publication of the quarterly results for the three months ended 31 March 2011 and the interim results for the six months ended 30 June 2011 constituted breaches of the GEM Listing Rules.

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2010.

CORPORATE GOVERNANCE REPORT

KLC Kennic Lui & Company Limited ("KLC") was appointed as the auditors of the Company on 18 October 2010 following the resignation of CCIF CPA Limited on 26 August 2010. KLC expressed a disclaimer opinion on the financial statements of the Group for the year ended 31 December 2010 because they were unable to obtain sufficient audit evidence on a number of significant matters. The Company announced on 12 May 2011 that the Audit Committee recommended it to engage independent professional parties to investigate and address the audit qualifications and to review the Group's internal control system. KLC resigned as auditors of the Group with effect from 14 June 2011. HLB Hodgson Impey Cheng was appointed as auditors of the Company for the year ended 31 December 2010 to fill the causal vacancy following the resignation of KLC.

The financial statements for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. The Audit Committee has recommended to the board of directors that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditors of the Company at the forthcoming annual general meeting.

For the year ended 31 December 2012, the audit service fees paid or payable by the Company amounted to approximately HK$1,200,000.

The statement of the Auditors about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 32 to 33 of this annual report.

C.2 Internal control

The Board is entrusted with the overall responsibility of devising the Company's system of internal controls and conducting an annual review of its effectiveness. This ensures that the Board oversees and monitors the Group's overall financial position so that the interests of the shareholders are well protected and covered. The system of internal controls covers the areas of financial, operational, compliance and risk management of the Group's business.

Trading in the shares of the Company was suspended with effect from 9:00 a.m. on 11 April 2011 pending the publication of the clarification announcement on the final results for the year ended 31 December 2010. On 12 May 2011, the Company published a clarification announcement which stated, among others, the Audit Committee in the course of reviewing the audited consolidated results for the year ended 31 December 2010 prepared by KLC noted the disclaimer qualification and the areas of internal control weaknesses as contained in the report issued by KLC and expressed the view that the internal reporting and monitoring system of the Group had not been properly implemented and was not adequate to keep the Board informed of the business and the management affairs of the Group.

KL CPA Limited has been appointed by the Company to undertake a review of the internal control system of the Group as recommended by the Audit Committee. KL CPA has produced a first draft of its report and the Company is reviewing the same and taking appropriate steps to adopt the measures proposed by KL CPA. As at the date of this report, the review is still on-going, further announcement will be made by the Company in this regard as and when necessary.

CORPORATE GOVERNANCE REPORT

C.3 Audit Committee

The Audit Committee was established on 5 July 2001 and a terms of reference was adopted. The Terms of Reference of the Audit Committee have included the duties set out in code provision C.3.3(a) to (n) of the CG Code. The existing members of the Audit Committee comprise Mr. Lam Kai Tai, Mr. Wong Ting Kon and Ms. Yeung Mo Sheung, Ann, all of whom are independent non-executive Directors. Mr. Lam Kai Tai is the chairman of the Audit Committee. The Audit Committee does not have as a member a former partner of the Group's existing audit firm.

During 2012, the Audit Committee met on four (4) occasions and discharged its responsibilities. Attendance of individual members at Audit Committee meetings in 2012 is as follows:

Number of meetings	4
Mr. Yeung Mo Sheung, Ann	4
Mr. Lam Kai Tai	4
Mr. Wong Ting Kon	4
Average attendance rate	100%

The principal duties of the Audit Committee included reviewing the Company's financial controls, internal control and risk management system, annual report, accounts and quarterly and half yearly report.

The following is a summary of the work performed by the Audit Committee during 2012:

— reviewing the auditor's management letter and management's response;

— reviewing and considering the recently issued accounting standards, the adoption of new accounting standards and the change in significant accounting policies;

— reviewing the audited financial statements and final results announcement for the year ended 31 December 2011;

— reviewing the interim report and the interim results announcement for the six months ended 30 June 2012;

— reviewing the quarterly reports and the quarterly results announcement for the three months ended 31 March 2012 and 30 September 2012, respectively;

— meeting with the auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2011 final results;

— meeting with the auditors to go through any significant key findings on the internal control and financial reporting matters based on the agreed-upon procedures performed for the Group's 2012 unaudited interim results.

CORPORATE GOVERNANCE REPORT

All issues raised by the Audit Committee have been addressed by the management. The work and findings of the Audit Committee have been reported to the Board. During 2012, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

As noted in paragraph C.2 above, the Audit Committee in reviewing the final results for the year ended 31 December 2010 noted the disclaimer opinion and the inadequacy of the internal control system of the Group. The Audit Committee has recommended that independent professional parties to carry out investigation in order to address the audit qualification and carry out a review of the internal control system of the Group.

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the Audit Committee for comments and approval.

The Audit Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on the website of the Company.

This annual report has been reviewed by the Audit Committee.

D Delegation By the Board

D.1 Management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

D.2 Board committees

Apart from the Audit Committee (as described under paragraph C.3), the Remuneration Committee (as described under paragraph B.1) and the Nomination Committee (as described under paragraph A.4), the Board has not established any other committee of the Board.

CORPORATE GOVERNANCE REPORT

E Communication with Shareholders

E.1 Effective communication

The Company attaches great importance to communications with shareholders. Information on the Group's activities, business, strategies and developments is provided in the Company's annual reports and interim reports. Shareholders of the Company are encouraged to attend the annual general meetings of the Company which offer a valuable forum for dialogue and interaction with management.

In line with the practice of the Company, in respect of each issue to be considered at the annual general meetings and extraordinary general meetings, including the re-election of Directors, a separate resolution will be proposed by the Chairman of the meeting.

In accordance with the code provision E.1.2 set out in the CG Code, members of the Board have attended the annual general meeting and the extraordinary general meeting held in 2012.

Participation of individual Directors at Annual General Meeting in 2012 is as follows:

Number of meetings	1
Executive Directors:	
Mr. Zhao Borui (Note)	0
Mr. Hu Yangxiong	1
Mr. Chow Yik	1
Mr. Leung King Fai	1
Mr. Lee Cheuk Yue, Ryan	0
Independent non-executive Directors:	
Mr. Lam Kai Tai	1
Mr. Wong Ting Kon	0
Ms. Yeung Mo Sheung, Ann	0
Average attendance rate	57%

Note:

Mr. Zhao Borui retired as an executive Director on 4 May 2012.

Notices of general meetings were sent to shareholders at least 20 clear business days before the annual general meeting and at least 10 clear business days for all other general meetings. The Company's auditors have also attended the Annual General Meeting in 2012.

CORPORATE GOVERNANCE REPORT

Participation of individual Directors at Extraordinary General Meetings in 2012 is as follows:

Number of meetings	1
Executive Directors:	
Mr. Zhao Borui (Note)	0
Mr. Hu Yangxiong	0
Mr. Chow Yik	1
Mr. Leung King Fai	1
Mr. Lee Cheuk Yue, Ryan	0
Independent non-executive Directors:	
Mr. Lam Kai Tai	1
Mr. Wong Ting Kon	1
Ms. Yeung Mo Sheung, Ann	0
Average attendance rate	57%

Note:

Mr. Zhao Borui retired as an executive Director on 4 May 2012.

Designated executive Director(s) and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any queries.

E.2 Voting by poll

At the annual general meeting and the extraordinary general meeting held in 2011, the Chairman had provided an explanation of the procedures for conducting a poll at the commencement of each of the meetings. Poll results were posted on the website of the Stock Exchange (as well as on the website of the Company) on the day of the holding of each of the shareholders' meetings.

Separate resolutions are proposed at shareholders' meeting on each substantial issue, including the election of individual Directors.

CORPORATE GOVERNANCE REPORT

F SHAREHOLDERS' RIGHTS

F.1 Convening an extraordinary general meeting and Procedures for putting forward proposals at shareholders' meeting

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, shareholders are requested to follow article 58 of the Articles of Association of the Company, general meetings shall be convened on the written requisition of any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

F.2 Procedures for nominating a new Director

Pursuant to the Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting.

The Board always welcome Shareholders' and other stakerholder's questions and concerns relating to the Group's management and governance. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to Company Secretary by post.

The address is Room 2707, 27th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

G INVESTOR RELATIONS

The Company has disclosed all necessary information to the shareholders and established a range of communication channels between itself, its shareholders and investors which in compliance with GEM Listing Rules. During the year under review, there is no change in the Company's constitutional documents.

H ARTICLES OF ASSOCIATION

There was no any change to the Articles of Association to the Company during the year ended 31 December 2012.

REPORT OF THE DIRECTORS

The Directors are pleased to present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2012.

Basis of Presentation

The Company was incorporated in the Cayman Islands on 1 August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 July 2001.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), published by the International Accounting Standards Board, and are supplemented by the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The basis of preparation of the financial statements is set out in Note 2 to the accompanying consolidated financial statements.

Principal Place of Business and Activities

The Company is a company incorporated in Cayman Islands and domiciled in Hong Kong. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report. The Company is an investment holding company. The principal activities of its subsidiaries are detailed in Note 20 to the financial statements.

Segment Information

Segment information of the Group for the year ended 31 December 2012 is set out in Note 5 to the accompanying consolidated financial statements.

Major Customers and Suppliers

For the year ended 31 December 2012, the five largest customers accounted for approximately 98% of the Group's total turnover. The five largest suppliers accounted for approximately 100% of the Group's total purchases. in addition, the largest customer accounted for approximately 64% of the Group's total turnover while the largest supplier accounted for approximately 100% of the Group's total purchases.

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

Results and Dividends

Details of the Group's results for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 34 of this annual report.

REPORT OF THE DIRECTORS

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial year is set out below.

Consolidated results

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000 (restated)	RMB'000	RMB'000	RMB'000
Turnover	**78,212**	41,165	89,226	83,468	79,226
Profit/(loss) before taxation	**18,674**	(47,543)	(37,703)	(29,303)	(15,023)
Taxation	**(1,068)**	—	(331)	(2,754)	(4,028)
Net profit/(loss) from ordinary activities attributable to shareholders	**17,606**	(47,543)	(38,034)	(32,057)	(19,051)

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net book value:					
Non-current assets	**111,314**	177,927	28,873	107,565	71,647
Current assets	**15,880**	43,503	102,896	33,607	17,582
Current liabilities	**(130,923)**	(103,846)	(93,950)	(132,269)	(83,432)
Net current (liabilities)/assets	**(115,043)**	(60,343)	8,946	(98,662)	(65,850)
Non-current liabilities	**(37)**	(115,245)	—	—	—
Net (liabilities)/assets	**(3,766)**	2,339	37,819	8,903	5,797

REPORT OF THE DIRECTORS

Share Capital and Share Option Scheme

Details of movements in the Company's issued share capital, together with the details of the Company's share option scheme are set out in the Notes 30 and 31 to the financial statements.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association and the laws in the Cayman Islands in relation to the issue of new shares by the Company.

Reserves

Movements in reserves of the Group and the Company during the year are set out in Note 30 to the financial statements.

Distributable Reserves

As at 31 December 2012 and 2011, the Company has no reserves available for distribution to its shareholders.

Property, Plant and Equipment

Details of movements in investment properties and other property, plant and equipment of the Group during the year are set out in Notes 15 and 16 to the accompanying consolidated financial statements, respectively.

Bank and Other Borrowings

Particulars of loans and borrowings of the Group as at 31 December 2012 are set out in Note 26 to the accompanying consolidated financial statements.

Connected Transactions

There were no significant connected party transactions entered into by the Group for the year ended 31 December 2012.

REPORT OF THE DIRECTORS

Directors

The Directors of the Company who held office during the year and up to the date of this report were:

Executive Directors

Mr. Chow Yik
Mr. Hu Yangxiong
Mr. Zhao Borui retired on 4 May 2012
Mr. Lee Cheuk Yue, Ryan
Mr. Leung King Fai

Independent Non-executive Directors

Mr. Lam Kai Tai
Mr. Wong Ting Kon
Ms. Yeung Mo Sheung, Ann

In accordance with the Company's articles of association, Messrs. Leung King Fai, Lee Cheuk Yue, Ryan and Chow Yik will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to GEM Listing Rule 5.09 and the Company considers the independent non-executive Directors remained independent.

Biographical Details of Directors and Senior Management

Biographical details of the Directors of the Company and the senior management of the Group are set out on page 9 of the annual report.

Directors' Service Contracts

All Directors have not been appointed for any fixed term but shall be subject to retirement by rotation in accordance with the articles of association of the Company.

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

Directors' Interests in Contracts

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

REPORT OF THE DIRECTORS

Directors' and Chief Executives' Interests or Short Positions in the Shares, Underlying Shares or Debentures of the Company or Any Associated Corporations

As at 31 December 2012, the interests and short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong (SFO)), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to hav e taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity/Nature of interest	No. of shares (Note 1)	Approximate percentage of interest
Mr. Hu Yangxiong	Beneficial owner and interest in a controlled corporation	85,700,000 (L)	4.68%
Mr. Leung King Fai	Beneficial owner	660,000 (L)	0.036%

Note:

1. The letter "L" denotes a long position in shares.

Save as disclosed above, as at 31 December 2012, none of the Directors or Chief Executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders of other members of the Group

So far as known to any Director or Chief Executive of the Company, as at 31 December 2012, persons who have interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity/Nature of interest	No. of shares (Note 1)	Approximate percentage of interest
Mr. Yip Chi Fai, Stevens (Note 2)	Interest in controlled corporation	193,975,000 (L)	10.59%
Beckon Investments Limited	Beneficial owner	193,975,000 (L)	10.59%

Notes:

1. The letter "L" denotes a long position in shares of the Company.

2. Mr. Yip Chi Fai, Stevens is deemed or taken to be interested in these shares which are beneficially owned by his wholly owned company, namely Beckon Investments Limited for the purpose of the SFO.

Save as disclosed above, as at 31 December 2012, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Options to Subscribe for Shares in the Company

Pursuant to a share option scheme adopted by the Company on 24 September 2009, the Directors may, at their discretion, offer to consultants, advisors, service providers, full-time employees and Executive Directors of the Company or its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on The Stock Exchange of Hong Kong Limited on the date of grant and the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vest immediate from the date of grant and are then exercisable within a period of ten years.

REPORT OF THE DIRECTORS

At 31 December 2012, the directors, employees, consultants, advisors and other service providers of the company had the following interests in options to subscribe for shares of the company under the share option scheme of the company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK$0.01 of the company.

Details of grantees	No. of options outstanding	Date granted	Period during which options are exercisable	Exercise price per share
Hu Yanxiong (Director)	86,760,000	22 January 2010	2 December 2009 to 1 December 2019	HK$0.2488
Leung King Fai (Director)	4,000,000	11 November 2009	11 November 2009 to 10 November 2019	HK$0.211
Consultants, Advisers, Service Providers, Employees and Others	61,000,000	11 November 2009	11 November 2009 to 10 November 2019	HK$0.211

The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

* being the weighted average closing price of the company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

Information on the accounting policy for share options granted and the weighted average value per option is provided in Notes 3 and 31 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

Directors' and Chief Executives' Rights to Acquire Shares or Debt Securities

As at 31 December 2012, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

Competing Interest

Up to the date of this report, none of the Directors or the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) of the Company has an interest in any business which directly or indirectly competes with the business of the Group, or has any other conflict of interests with the Group.

REPORT OF THE DIRECTORS

Major Events Subsequent to the Year

On 16 June 2012, the Company, as the seller, entered into a sale and purchase agreement with Shanxi Chang Chuan Teng Medical Technology Development Company Limited ("Chang Chuan Teng"), pursuant to which the Company agreed to sell and Chang Chuan Teng agreed to purchase the Company's entire interest in Garner International Investments Limited for a total consideration of HK$3,000,000. Pursuant to the sale and purchase agreement, the Company also agreed to irrevocably and unconditionally waive the outstanding amount owing by the Disposal Group to the Company as at the date of completion of this transaction. This transaction was completed on 10 October 2012. Details are set out in the Company's announcement dated 17 June 2012 and 10 October 2012.

Audit Committee

The Company established an audit committee in July 2001 with terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee include the review and supervision of the financial reporting process and the internal monitoring system of the Group. The audit committee has three members comprising Mr. Lam Kai Tai, Mr. Wong Ting Kon and Ms. Yeung Mo Sheung, Ann, the three Independent Non-executive Directors. The audit committee met 4 times during the year. The Group's revised audited consolidated results for the year have been reviewed by the audit committee, and it was in its opinion that (i) the preparation of such results complied with the applicable standards and statutory requirements and the requirements of the Stock Exchange and that (ii) the internal reporting and monitoring system of the Group had been properly implemented and was adequate to keep the Board informed of the business and the management affairs of the Group. During the year, no material matters were identified and reported by the Board to the audit committee and the supervisory committee of the Board.

Board Practices and Procedures

For the year under review, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning the board practices and procedures, which applied before the amendment relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report.

Suspension of Trading of the Shares

At the request of the Company, trading of the shares of the Company was suspended from 9:00 a.m. on 1 April 2011 and will remain suspended until further notice. Until satisfaction of all the resumption conditions set by the Stock Exchange, trading in the shares of the Company will continue to be suspended.

The Company's former auditors, KLC Kennic Lui & Co. Ltd. ("KLC"), expressed a disclaimer of opinion on the financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 because they were unable to obtain sufficient audit evidence on a number of significant matters. The Company announced on 12 May 2011 that the audit committee of the Company recommended it to engage independent professional parties to investigate and address the audit qualifications and to review the Group's internal control system. KLC resigned as auditors of the Group with effect from 14 June 2011. HLB Hodgson Impey Cheng ("HLB") was appointed as auditors of the Company for the year ended 31 December 2010 to fill the causal vacancy following the resignation of KLC and to hold the office until the conclusion of the next annual general meeting of the Company. The Company is taking necessary steps to fulfill the above conditions imposed by the Stock Exchange. An independent professional firm, KL CPA Limited was appointed to review the Group's internal controls and financial reporting procedures.

REPORT OF THE DIRECTORS

Up to the date of this announcement, the Stock Exchange has allowed the resumption of trading in the shares of the Company subject to an announcement disclosing:

(i) findings of the investigation by KL CPA Limited; and address the issues raised by KLC;

(ii) audit committee's assessment on the adequacy of the Company's actions taken to address the audit qualifications by the former auditors.

Resumption of trading in the Shares of the Company is expected on 27 March 2013.

Preparation of the above announcement is in progress by the Company.

Auditors

The Group's financial statements were previously audited by Messrs. CCIF CPA Limited (the "CCIF"). KLC Kennic Lui & Co. Ltd. (the "KLC") was appointed as the auditors of the Company on 18 October 2010 following the resignation of CCIF with effect from 26 August 2010. KLC resigned as auditors of the Group with effect from 14 June 2011. HLB Hodgson Impey Cheng was appointed as auditors of the Company to fill the causal vacancy following the resignation of KLC. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited.

The Group's financial statements for the year were audited by HLB Hodgson Impey Cheng Limited. HLB Hodgson Impey Cheng Limited retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Chow Yik
Chairman

Hong Kong, 25 March 2013

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF HAO WEN HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hao Wen Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012, and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2(b) to the consolidated financial statements which indicates that the Group's consolidated current liabilities exceeded its consolidated current assets by approximately RMB115,043,000 and consolidated total liabilities exceeded its consolidated total assets by approximately RMB3,766,000. These conditions, along with other matters as set forth in note 2(b), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong, 25 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000 (restated)
Turnover	4	78,212	41,165
Cost of sales		(70,440)	(35,847)
Gross profit		7,772	5,318
Other gains and losses	6	4,026	(1,827)
Selling and distribution expenses		(4)	(829)
General and administrative expenses		(27,517)	(31,196)
Impairment loss on intangible assets		(2,083)	—
Loss from operations		(17,806)	(28,534)
Share of results of associates	19	(9)	(801)
Gain on disposal of subsidiaries		—	1,156
Finance costs	7(a)	(12,143)	(7,051)
Loss before taxation	7	(29,958)	(35,230)
Income tax expenses	8(a)	(1,068)	—
Loss for the year from continuing operations		(31,026)	(35,230)
Discontinued operation			
(Profit)/loss for the year from discontinued operation	11	48,632	(12,313)
Profit/(loss) for the year		17,606	(47,543)
Other comprehensive income/(loss), net of income tax			
Exchange differences on translating foreign operations		77	(1,322)
Total comprehensive income/(loss) for the year		17,683	(48,865)
Profit/(loss) for the year attributable to owners of the Company		17,606	(47,543)
Total comprehensive income/(loss) for the year attributable to owners of the Company		17,683	(48,865)
Earnings/(loss) per share	14		
For continuing and discontinued operations			
Basic (cents)		0.96	(2.74)
Diluted (cents)		0.96	(2.74)
For continuing operations			
Basic (cents)		(1.69)	(2.03)
Diluted (cents)		(1.69)	(2.03)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	The Group 2012 RMB'000	The Group 2011 RMB'000	The Company 2012 RMB'000	The Company 2011 RMB'000
Non-current assets					
Plant and equipments	15	2,038	51,346	45	80
Investment properties	16	1,900	1,670	—	—
Intangible assets	17	98,517	118,081	—	—
Goodwill	18	6,821	6,821	—	—
Interests in associates	19	—	9	—	—
Investments in subsidiaries	20	—	—	13,714	14,677
Trade and other receivables	22	2,038	—	—	—
		111,314	177,927	13,759	14,757
Current assets					
Inventories	21	—	7,930	—	—
Trade and other receivables, prepayments and deposits	22	11,311	16,683	82,842	83,148
Financial assets at fair value through profit or loss	23	—	6,880	—	—
Cash and bank balances	24	4,569	12,010	140	384
		15,880	43,503	82,982	83,532
Current liabilities					
Trade and other payables	25	8,192	48,846	4,395	3,899
Bank and other borrowings	26	—	55,000	—	—
Convertible notes	27	97,822	—	97,822	—
Promissory notes	28	23,932	—	—	—
Tax payables	29	977	—	—	—
		130,923	103,846	102,217	3,899
Net current (liabilities)/assets		(115,043)	(60,343)	(19,235)	79,633
Total assets less current liabilities		(3,729)	117,584	(5,476)	94,390
Non-current liabilities					
Deferred tax liabilities	29	37	—	—	—
Convertible notes	27	—	92,499	—	92,499
Promissory notes	28	—	22,746	—	—
		37	115,245	—	92,499
Net (liabilities)/assets		(3,766)	2,339	(5,476)	1,891
Capital and reserves attributable to owners of the Company					
Share capital	30	17,122	17,122	17,122	17,122
Reserves		(20,888)	(14,783)	(22,598)	(15,231)
Total equity		(3,766)	2,339	(5,476)	1,891

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2013 and are signed on its behalf by:

Hu Yangxiong
Director

Leung King Fai
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital	Share premium	Capital reserve	Capital reduction reserve	Share-based compensation reserve	General fund reserve	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	14,607	61,210	7,195	92,489	20,103	9,025	(1,464)	(165,346)	37,819
Loss for the year	—	—	—	—	—	—	—	(47,543)	(47,543)
Other comprehensive loss for the year									
Exchange differences on translating foreign operations	—	—	—	—	—	—	(1,322)	—	(1,322)
Total comprehensive loss for the year	—	—	—	—	—	—	(1,322)	(47,543)	(48,865)
Issue of share upon placing, net of transaction costs	2,515	10,870	—	—	—	—	—	—	13,385
At 31 December 2011	17,122	72,080	7,195	92,489	20,103	9,025	(2,786)	(212,889)	2,339
At 1 January 2012	17,122	72,080	7,195	92,489	20,103	9,025	(2,786)	(212,889)	2,339
Profit for the year	—	—	—	—	—	—	—	17,606	17,606
Other comprehensive income for the year									
Exchange differences on translating foreign operations	—	—	—	—	—	—	77	—	77
Total comprehensive income for the year	—	—	—	—	—	—	77	17,606	17,683
Release upon disposal of subsidiaries	—	—	(7,195)	—	—	(9,025)	(7,568)	—	(23,788)
At 31 December 2012	17,122	72,080	—	92,489	20,103	—	(10,277)	(195,283)	(3,766)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Operating activities			
Profit/(loss) before taxation			
From continuing operations		(29,958)	(35,230)
From discontinued operation		48,632	(12,062)
		18,674	(47,292)
Adjustments for:			
Depreciation	7(c)	3,940	4,287
Fair value gain on investment properties	6	(230)	—
Amortisation of intangible assets	7(c)	17,114	17,398
Realised loss on financial assets at fair value through profit or loss	6	1,801	—
Impairment loss of intangible assets	7(c)	2,083	—
Share of loss of associates		9	801
Unrealised loss on financial assets at fair value through profit or loss	6	—	(1,803)
Fair value (gain)/loss on convertible notes		(1,103)	3,928
Interest expense	7(a)	19,555	14,672
Interest income	7(a)	(1)	(12)
Gain on disposal of subsidiaries		(66,344)	(1,156)
Operating loss before working capital changes		(4,502)	(9,177)
Increase in inventories		(1,079)	(3,201)
(Increase)/decrease in trade and other receivables, prepayments and deposits		(32,253)	10,266
Increase/(decrease) in trade and other payables		64,774	(11,429)
Cash used in operations		26,940	(13,541)
Purchase of financial assets at fair value through profit or loss		(2,717)	(56,467)
Proceeds of disposal financial assets at fair value through profit or loss		7,774	53,973
Tax paid		(54)	(380)
Net cash generated from/(used in) operating activities		31,943	(16,415)
Cash flows from investing activities			
Purchase of plant and equipments		(23,429)	(2,614)
Net cash outflow from acquisition of subsidiaries		—	(25,004)
Net cash (outflow)/inflow from disposal of subsidiaries		(12,705)	4,892
Interest received		1	12
Net cash used in investing activities		(36,133)	(22,714)

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Cash flows from financing activities			
Repayment of bank and other borrowings		**(42,000)**	(32,768)
Proceeds from new bank and other borrowings		**49,000**	53,800
Net proceeds from shares issued upon placing, net of share issuance expense		**—**	13,385
Interest paid		**(10,353)**	(10,135)
Net cash (used in)/generated from financing activities		**(3,353)**	24,282
Net decrease in cash and cash equivalents		**(7,543)**	(14,847)
Cash and cash equivalents at the beginning of year	24	**12,010**	27,692
Effect of exchange rate changes on the balance of cash held in foreign currencies		**102**	(835)
Cash and cash equivalents at the end of the year	24	**4,569**	12,010

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. General Information

Hao Wen Holdings Limited (the "Company") was incorporated in the Cayman Islands on 1 August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands, and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 July 2001. The address of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The consolidated financial statements of the Company as at and for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily engaged in the manufacture and sales of medicines, sale of biodegradable food containers and disposable industrial packaging for consumer products. During the year, the manufacture and sales of medicines business was discontinued (note 11).

2. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations promulgated by the International Accounting Standards Board (the "IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(f) to the financial statements provides information on any changes in accounting policies resulting from initial application relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Going concern basis

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group notwithstanding that:

— the Group had consolidated net current liabilities of approximately RMB115,043,000 and net liabilities RMB3,766,000 as at 31 December 2012; and

— the Group had convertible notes of approximately RMB97,822,000 and promissory notes of approximately RMB23,932,000 is due within the next twelve months after 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

2. Basis of Preparation *(Continued)*

(b) Going concern basis *(Continued)*

The directors adopted the going concern basis in the preparation of the financial statements and implemented the following measures in order to improve the working capital and liquidity and cash flow position of the Group:

(1) Financial supports

Beckon Investments Limited, one of the major shareholders of the Company has confirmed to provide continuing financial support to the Group to enable it to continue as a going concern and to settle liabilities as and when they fall due.

(2) Conversion of convertible notes

Subsequent to 31 December 2012, the Group received a written confirmation dated 25 March 2013 from convertible note holder, Talent Keen Limited ("Talent Keen"), stated that Talent Keen intends to convert the convertible notes to ordinary share of the Company by the maturity date at 27 May 2013.

(3) Extension of the maturity date of promissory notes

The Group received a written confirmation dated 25 March 2013 from promissory notes holder, Talent Keen agreed to extend the maturity date on promissory notes from 27 May 2013 to 27 May 2015, bearing interest at 5% per annum.

In the opinion of the directors, in light of the various measures/arrangements implemented after the end of reporting period, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effect of these adjustments has not been reflected in the financial statements.

(c) Basis of measurement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

2. Basis of Preparation *(Continued)*

(d) Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the Company and its operating subsidiary in the People's Republic of China (the "PRC") are Hong Kong dollars and Renminbi ("RMB") respectively. For the purpose of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency. All financial information presented in RMB has been rounded to the nearest thousand.

(e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and report amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are disclosed in note 38.

(f) Application of New and Revised International Financial Reporting Standards

The Group has adopted the following revised IFRSs for the first time for the current year's consolidated financial statements.

IFRS 1 Amendments	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

2. Basis of Preparation *(Continued)*

(f) Application of New and Revised International Financial Reporting Standards *(Continued)*

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

IFRS 9	Financial instruments[4]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interest in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
Amendments to IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[4]
Amendments to IFRS10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint arrangements Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendment to IFRS 10, IFRS 12 and IAS 27	Investment Entities[3]
IAS 19 (as revised in 2011)	Employee Benefits[2]
IAS 27 (as revised in 2011)	Separate Financial Statements[2]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011[1]
IFRIC Int 20	Stripping Costs in the Production Phase of 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.

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

All recognised financial assets that are within the scope of IAS 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 reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS9, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

2. Basis of Preparation *(Continued)*

(f) Application of New and Revised International Financial Reporting Standards *(Continued)*

With regard to the measurement of financial liabilities designed as at fair value through profit or loss, IFRS 9 requires that the amount of change in 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 of financial liabilities attributable to changes in the financial liabilities' credit risk not subsequently reclassified to profit or loss. Previously, under IFRS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of new standard may have a significant impact on amounts reported in respect of Group's financial assets. However, it is not practical to provide a reasonable estimate of that effect until a detailed review has been completed.

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC – Int 12 Consolidation — Special Purpose Entities. IFRS 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 IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC – Int 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 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 IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

2. Basis of Preparation *(Continued)*

(f) Application of New and Revised International Financial Reporting Standards *(Continued)*

IFRS 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 IFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRS for the first time.

The directors do not anticipate that the amendments will significant effect on the Group's consolidated financial statements.

IFRS 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 IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 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 IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

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

The directors do not anticipate that the amendments will significant effect on the Group's consolidated financial statements.

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities 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 IFRS 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.

The amendments to IFRS7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosure being made with regards to offsetting financial assets and financial liabilities in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

2. Basis of Preparation *(Continued)*

(f) Application of New and Revised International Financial Reporting Standards *(Continued)*

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 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 IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (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 do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to IAS 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 amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may have impact on amounts reported in respect of the Group's defined benefit plans. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

The amendments to IAS 1 require an entity that changes accounting policies retrospectively, or make a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The Annual Improvements to IFRSs 2009-2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

2. Basis of Preparation *(Continued)*

(f) Application of New and Revised International Financial Reporting Standards *(Continued)*

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The directors do not anticipate that the amendments to IAS 16 will have a significant effect on the Group's consolidated financial statements.

The amendments to IAS 32 clarify that income tax on distribution to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The directors anticipate that the amendments to IAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(a) Basis of consolidation *(Continued)*

(iii) Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

(iv) Business combinations

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

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

(i) deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

(ii) liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

(iii) assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(a) Basis of consolidation *(Continued)*

(iv) Business combinations *(Continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction by transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(a) Basis of consolidation *(Continued)*

(iv) Business combinations *(Continued)*

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(b) Investments in subsidiaries

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses.

(c) Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(c) Investments in associates *(Continued)*

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

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

(d) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(e) Plant and equipments

(i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that are directly attributable to the acquisition of the asset. The cost of self-constructed items of assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gains or losses arising on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment, and are recognised net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

— Machinery and equipment	8-10 years
— Furniture and office equipment	5-8 years
— Motor vehicles	5-8 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(e) Plant and equipments *(Continued)*

(iv) Construction in progress represents buildings and various plant and equipment under construction and pending installation, and is stated at cost less any impairment losses. Cost comprises direct costs of construction incurred during the periods of construction.

Construction in progress is transferred to buildings, and machinery and equipment when the asset is substantially ready for its intended use.

(f) 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 Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(f) Leasing *(Continued)*

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(g) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(h) Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(h) Intangible assets *(Continued)*

Internally-generated intangible assets — 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:

(i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(ii) the intention to complete the intangible asset and use or sell it;

(iii) the ability to use or sell the intangible asset;

(iv) how the intangible asset will generate probable future economic benefits;

(v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(vi) 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 recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(h) Intangible assets *(Continued)*

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(i) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is calculated based on the weighted average costing method (which approximates the average actual cost) and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

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

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss", "held-to-maturity" investments, "available-for-sale" financial assets and "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. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at financial asset at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

(a) it has been acquired principally for the purpose of selling it in the near future; or

(b) on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(c) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

(a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(b) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(c) it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, prepayments and deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (see out above). At the end of each reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 investment have been affected.

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

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

(a) significant financial difficulty of the issuer or counterparty; or

(b) breach of contract, such as a default or delinquency in interest or principal payments; or

(c) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

(d) the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

Impairment of financial assets (Continued)

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

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

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

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

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, bank and other borrowings, convertible notes, and promissory notes are subsequently measured at amortised cost, using the effective interest rate method. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue cost.

Effective interest method

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

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at fair value though profit or loss.

Convertible notes

Convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

Convertible notes *(Continued)*

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to convertible notes reserves. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to convertible notes reserves. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

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.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(k) Cash and cash equivalents

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

(l) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue from sale of goods is recognised when significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue excludes value added tax or other sales taxes and is stated after deduction of any trade discounts.

(ii) Interest income

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

(n) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(n) Employee benefits *(Continued)*

(ii) Share-based payments

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

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

(o) Finance income and costs

Finance income comprises interest income on funds invested that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying assets are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis

(p) Taxation

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

Current tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(p) Taxation *(Continued)*

Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset 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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(p) Taxation *(Continued)*

Deferred tax *(Continued)*

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate 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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(q) Provisions and contingent liabilities

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

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

(r) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(r) Foreign currencies *(Continued)*

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

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

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

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of exchange reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(s) Related party transactions

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group ;

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

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

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

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a); or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

3. Significant Accounting Policies *(Continued)*

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various line of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. Turnover

Turnover represents the sales value of goods supplied to customers, which excludes value added tax and is stated after deduction of goods returns and trade discounts.

	2012 **RMB'000**	2011 RMB'000 (restated)
Continuing operations:		
Sale of biodegradable products	**78,127**	40,336
Distribution of skin care products	**85**	829
	78,212	41,165
Discontinued operation:		
Sale of pharmaceutical products	**56,450**	80,541
Total	**134,662**	121,706

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

5. Segment Reporting

Information reported to the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or provided. The segmentations are based on the information about the operation of the Group that management uses to make decision and regularly review by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance.

The Group's reportable and operating segment under IFRS 8 are as follows:

(a) sale of biodegradable food containers and disposable industrial packaging for consumer products; and

(b) distribution of skin care products.

The Group's manufacturing and sale of pharmaceutical products operation was discontinued during the year ended 31 December 2012.

Segment revenues and results

	Continuing operations				Discontinued operation			
	Biodegradable products		Skin care products		Pharmaceutical products		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover								
External sales	78,127	40,336	85	829	56,450	80,541	134,662	121,706
Result								
Segment result	(8,828)	(12,718)	(616)	129	48,632	(9,350)	39,188	(21,939)
Unallocated corporate expenses							(6,279)	(11,048)
Impairment loss on intangible assets	—	—	(2,083)	—	—	—	(2,083)	—
Profit/(loss) from operations							30,826	(32,987)
Share of results of associates							(9)	(801)
Gain on disposal of subsidiaries							—	1,156
Finance costs							(12,143)	(14,660)
Profit/(loss) before taxation							18,674	(47,292)
Income tax expense							(1,068)	(251)
Profit/(loss) for the year							17,606	(47,543)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

5. Segment Reporting *(Continued)*

Segment revenues and results *(Continued)*

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2011: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' emoluments, share of results of associates, gain on disposal of subsidiaries, finance costs and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

	Continuing operations				Discontinued operation			
	Biodegradable products		Skin care products		Pharmaceutical products		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets								
Segment assets	104,992	137,994	—	3,510	—	39,044	104,992	180,548
Unallocated corporate assets							22,202	40,882
							127,194	221,430
Liabilities								
Segment liabilities	1,323	5,482	—	—	—	82,892	1,323	88,374
Unallocated corporate liabilities							129,637	130,717
							130,960	219,091

For the purposes of monitoring segment performance and allocating resources between segments:

All assets are allocated to operating segments other than interests in associates, investment properties, financial assets at fair value through profit or loss and other corporate assets.

All liabilities are allocated to operating segments other than convertible notes, promissory notes and corporate liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

5. Segment Reporting *(Continued)*

Other segment information

The following is an analysis of the Group's other segment information:

	Continuing operations				Discontinued operation					
	Biodegradable products		Skin care products		Pharmaceutical products		Unallocated		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Capital expenditure										
— intangibles assets	**—**	134,338	**—**	—	**—**	—	**—**	—	**—**	134,338
— others	**—**	—	**—**	—	**23,422**	42,114	**7**	1,285	**23,429**	43,399
Depreciation and amortisation	**16,420**	16,704	**694**	694	**3,014**	3,521	**926**	766	**21,054**	21,685
Impairment loss on intangible assets	**—**	—	**2,083**	—	**—**	—	**—**	—	**2,083**	—

The Group's revenue from its major products were disclose in note 4 to the consolidated financial statements.

Geographical information

The Group operates in two principal geographical areas, the PRC (excluding Hong Kong) and Hong Kong. The Group's revenue from the external customers by location of operations and information about its non-current assets are detailed below.

	Revenue		Non-current assets	
	Year ended 31 December 2012	Year ended 31 December 2011	**At 31 December 2012**	At 31 December 2011
	RMB$'000	RMB$'000 (restated)	**RMB$'000**	RMB$'000
The PRC	**—**	—	**4,859**	53,025
Hong Kong	**78,212**	41,165	**106,455**	124,902
	78,212	41,165	**111,314**	177,927

Information about major customers

Included in revenue arising from continuing operations biodegradable products of approximately RMB78,127,000 (2011: RMB40,336,000) of approximately RMB76,641,000 (2011: RMB30,776,000), which arose five (2011: three) single external customers.

Included in revenue arising from sale of discontinued operation pharmaceutical products of approximately RMB56,450,000 (2011: RMB80,541,000) of approximately RMB50,012,000 (2011: RMB61,779,000), which arose from one (2011: one) single external customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

6. Other Gains and Losses

	2012 RMB'000	2011 RMB'000 (restated)
Continuing operations:		
Sample income	5	22
Sundry income	718	276
Rental income	36	—
Distribution income	3,735	—
Fair value gain on investment properties	230	—
Fair value gain/(loss) of financial assets at fair value through profit or loss	—	1,803
Realised loss on of financial assets at fair value through profit or loss	(1,801)	—
Fair value gain/(loss) on convertible notes	1,103	(3,928)
	4,026	(1,827)
Discontinued operation:		
Sample income	267	590
Sundry income	7	62
Total	4,300	(1,175)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

7. Loss before Taxation

Loss before taxation is arrived after charging/(crediting):

(a) Net finance costs/(income)

	2012 RMB'000	2011 RMB'000 (restated)
Continuing operations:		
Interest on convertible notes	9,662	5,605
Interest on promissory notes	2,482	1,458
Bank interest income	(1)	(12)
	12,143	7,051
Discontinued operations:		
Interest on bank and other borrowings wholly repayable within five years	7,411	7,609
Net financial costs recognised in consolidated statement of comprehensive income	19,554	14,660

The following is an analysis of net finance costs/(income):

	2012 RMB'000	2011 RMB'000
Total interest income earned on financial assets that are not designated as at fair value through profit or loss — Loans and receivables (including cash and bank balances)	1	12
Total interest expenses for financial liabilities that are not designated as at fair value through profit or loss	19,555	14,672

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

7. Loss before Taxation *(Continued)*

(b) Staff costs (including directors' emoluments)

	2012 RMB'000	2011 RMB'000 (restated)
Continuing operations:		
Contributions to defined contribution plans	59	129
Salaries, wages and other benefits	2,199	2,446
	2,258	2,575
Discontinued operations:		
Contributions to defined contribution plans	1,175	1,494
Salaries, wages and other benefits	6,345	9,664
	7,520	11,158
Total staff costs	9,778	13,733

(c) Other items

	2012 RMB'000	2011 RMB'000 (restated)
Continuing operations:		
Amortisation of intangible assets	17,114	17,398
Depreciation	926	766
Operating lease charges in respect of property rentals:		
Minimum lease payments	1,590	1,910
Auditors' remuneration		
— audit services	995	995
Cost of inventories sold	70,440	35,847
Impairment loss on intangible assets	2,083	—
Discontinued operation:		
Depreciation	3,014	3,521
Operating lease charges in respect of property rentals:		
Minimum lease payments	1,500	2,000
Advertising and promotion expenses	31,011	40,002
Cost of inventories sold	17,649	24,630

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

8. Income Tax in the Consolidated Statement of Comprehensive Income

Continuing operations

(a) Taxation in the consolidated statement of comprehensive income represents:

	2012 RMB'000	2011 RMB'000
Current tax		
Hong Kong	91	—
PRC Enterprise Income Tax	886	—
	977	—
Under provision in prior year		
Hong Kong	54	—
Deferred tax		
Charged to the consolidated statement of comprehensive income	37	—
	1,068	—

(i) Hong Kong profits tax

Hong Kong profit tax has been provided at the rate of 16.5% (2011: Nil) on the estimated assessable profit for the year ended 31 December 2012.

(ii) Income taxes outside Hong Kong

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Company and the Company's subsidiaries registered in the BVI are not subject to any income tax in the Cayman Islands and BVI, respectively.

The subsidiary of the Group established in the PRC is generally subject to PRC enterprise income tax on its taxable income at an income tax rate of 25% in respect of the year ended 31 December 2012 (2011: 25%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

8. Income Tax in the Consolidated Statement of Comprehensive Income *(Continued)*

Continuing operations *(Continued)*

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2012		2011	
	RMB'000	**%**	RMB'000	%
Loss before taxation	**(29,958)**		(35,230)	
Notional tax on profit/loss before taxation calculation at the PRC enterprise income tax rate of 25% (2011: 25%)	**(7,490)**	**(25.0)**	(8,808)	(25.0)
Tax effect non-taxable income	**(144)**	**(0.5)**	—	—
Tax effect non-deductible expenses	**2,279**	**7.6**	5,073	14.4
Tax effect of unused tax losses not recognised	**4,543**	**15.2**	1,263	3.6
Under provision of profit tax for prior year	**54**	**0.2**	—	—
Tax effect of different tax rates in other jurisdictions	**1,826**	**6.1**	2,472	7
Income tax expenses for the year	**1,068**	**3.6**	—	—

Discontinued operation

(a) Taxation in the consolidated statement of comprehensive income represents:

	2012	2011
	RMB'000	RMB'000
Current tax		
PRC enterprise income tax for the year	**—**	251

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising from Hong Kong during the years ended 31 December 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

8. Income Tax in the Consolidated Statement of Comprehensive Income *(Continued)*

Discontinued operation *(Continued)*

(a) Taxation in the consolidated statement of comprehensive income represents: *(Continued)*

(ii) Income taxes outside Hong Kong

Pursuant to the rules and regulations of the British Virgin Islands (the "BVI"), the Company and the Company's subsidiaries registered in the BVI are not subject to any income tax in the BVI.

The subsidiary of the Group established in the PRC is generally subject to PRC enterprise income tax on its taxable income at an income tax rate of 25% in respect of the year ended 31 December 2012 (2011: 25%).

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2012		2011	
	RMB'000	**%**	RMB'000	%
Loss before taxation	**(17,712)**		(12,062)	
Notional tax on loss before taxation calculation at the PRC enterprise income tax rate of 25% (2011: 25%)	**(4,428)**	**(25.0)**	(3,015)	(25.0)
Tax effect non-deductible expenses	**4,430**	**25.0**	3,233	26.8
Tax effect of different tax rates in other jurisdictions	**(2)**	**—**	33	0.3
Income tax expenses for the year	**—**	**—**	251	2.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

9. Directors' Remuneration

Details of remuneration of the directors' remuneration of the Company for the year, disclosed pursuant to Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Directors' Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2012 Total RMB'000
Executive directors:				
Hu Yangxiong	—	288	10	298
Zhao Borui (resigned on 04/05/2012)	—	34	—	34
Leung King Fai	—	371	11	382
Lee Cheuk Yue	—	159	—	159
Chow Yik	—	242	11	253
Independent non-executive directors:				
Yeung Mo Sheung, Ann	147	—	—	147
Lam Kai Tai	106	—	—	106
Wong Ting Kon	98	—	—	98
	351	1,094	32	1,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

9. Directors' Remuneration *(Continued)*

	Directors' Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2011 Total RMB'000
Executive directors:				
Chung Chi Mang (resigned on 03/11/2011)	—	—	—	—
Hu Yangxiong	—	569	10	579
Zhao Borui	—	99	—	99
Liu Yinxiao (appointed on 28/09/2010 and resigned on 11/01/2011)	—	3	—	3
Leung King Fai	—	377	10	387
Lee Cheuk Yue	—	162	—	162
Chow Yik (appointed on 11/01/2011)	—	180	6	186
Independent non-executive directors:				
Fu Wing Kwok, Ewing (resigned on 11/01/2011)	2	—	—	2
Lam Chung Fai (resigned on 11/01/2011)	39	—	—	39
Lam Ka Wai, Graham (appointed on 17/11/2010 and resigned on 17/05/2011)	36	—	—	36
Yeung Mo Sheung, Ann (appointed on 11/01/2011)	124	—	—	124
Lam Kai Tai (appointed on 21/04/2011)	75	—	—	75
Wong Ting Kon (appointed on 21/04/2011)	69	—	—	69
	345	1,390	26	1,761

The details of those benefits in kind, including the principal terms and number of options granted, are disclosed in note 31.

For the years ended 31 December 2012 and 2011, no emolument was paid to the directors as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

10. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, four (2011: four) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other one individual (2011: one) are as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other emoluments	254	127
Retirement scheme contributions	12	6
	266	133

The emoluments of the other one individual (2011: one individual) with the highest emoluments are within the following bands:

	Number of individuals	
	2012	2011
Nil — HK$1,000,000	1	1

For the years ended 31 December 2012 and 2011, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Discontinued Operation

On 16 June 2012, the Company entered into the conditional sale and purchase agreement that the manufacture and sales of medicines business were discontinued following the disposal of Garner International Limited ("**Garner**"), a directly wholly-owned subsidiary of the Company and its subsidiaries (collectively known as the "**Garner Group**"), which carried out all of the Group's manufacture and sales of medicines operation. The disposal of the manufacture and sales of medicines business is consistent with the Group's long-term policy to focus its activities in remaining business and The Directors believe that inputs of further managerial, operational and financial and sales resources to these businesses will enhance the performance of the Remaining Group. The disposal was completed on 10 October 2012, on which date control of pharmaceutical products operation passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of the profit on disposal, are disclosed in note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

11. Discontinued Operation *(Continued)*

Analysis of profit/(loss) for the year from discontinued operation

The comparative loss and cash flows from discontinued operation have been re-presented to include those operations classified as discontinued in the current year.

	2012 RMB'000	2011 RMB'000
Profit/(loss) for the year from discontinued operation:		
Turnover	56,450	80,541
Cost of sales	(17,649)	(24,630)
Gross profit	38,801	55,911
Other gains and losses	274	652
Selling and distribution expenses	(38,223)	(45,695)
General and administrative expenses	(11,153)	(15,321)
Loss from operations	(10,301)	(4,453)
Finance costs	(7,411)	(7,609)
Loss before taxation	(17,712)	(12,062)
Income tax expenses	—	(251)
	(17,712)	(12,313)
Gain on disposal of operation (Note 37)	66,344	—
Gain/(loss) for the year from discontinued operation	48,632	(12,313)
Profit/(loss) for the year from discontinued operation include the following:		
Depreciation	3,014	3,521
Auditor's remuneration	—	—
Cash flow from discontinued operation		
Net cash inflow from operating activities	31,097	20,139
Net cash outflow from investing activities	(23,409)	(41,671)
Net cash inflow from financing activities	7,000	21,032
Net cash inflow/(outflow)	14,688	(500)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

12. Loss attributable to Owners of the Company

The consolidated loss attributable to owners of the Company includes a loss of RMB7,603,000 (2011: RMB37,894,000) which has been dealt with in the financial statements of the Company.

13. Dividend

The board of directors do not recommend the payment of any dividend for the year ended 31 December 2012 (2011: Nil).

14. Earnings/(loss) per Share

(a) Basic earnings/(loss) per share

For continuing and discontinued operations

The calculation of basic earnings/(loss) per share is based on the profit for the year attributable to owners of the Company of approximately RMB17,606,000 (2011: loss for the year approximately RMB47,543,000) and weighted average number of approximately 1,832,091,000 (2011: approximately 1,737,570,000) ordinary share.

For continuing operations

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of approximately RMB31,026,000 (2011: approximately RMB35,230,000) and weighted average number of approximately 1,832,091,000 (2011: approximately 1,737,570,000) ordinary share.

For discontinued operation

Basic earnings per share for discontinued operation is RMB2.65 cents (2011: loss RMB0.7 cents). The calculation of basic loss per share is based on the earnings/(loss) for the year attributable to owners of the Company of approximately RMB48,632,000 (2011: loss for the year approximately RMB12,313,000) and weighted average number of approximately 1,832,091,000 (2011: approximately 1,737,570,000) ordinary share.

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share for the years ended 31 December 2012 and 2011 were same as the basic earnings/(loss) per share. The Company's outstanding share options were not included in the calculation of diluted earnings/(loss) per share because the effects of the Company's outstanding share option were anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

15. Plant and Equipments

Movements in plant and equipments are as follows:

	The Group					The Company
	Machinery and equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000	Furniture and office equipment RMB'000
Cost						
At 1 January 2011	11,110	7,197	11,851	—	30,158	163
Exchange adjustments	—	(28)	(72)	—	(100)	(4)
Additions	536	2,078	—	40,785	43,399	—
Disposals	—	—	(220)	—	(220)	—
At 31 December 2011 and 1 January 2012	11,646	9,247	11,559	40,785	73,237	159
Exchange adjustments	—	(5)	(3)	—	(8)	(2)
Additions	—	435	—	22,994	23,429	—
Disposal of subsidiaries	(11,646)	(8,041)	(9,478)	(63,779)	(92,944)	—
At 31 December 2012	**—**	**1,636**	**2,078**	**—**	**3,714**	**157**
Accumulated depreciation and impairment						
At January 2011	7,387	4,286	6,233	—	17,906	45
Exchange adjustments	—	(11)	(71)	—	(82)	(3)
Charge for the year	1,435	1,059	1,793	—	4,287	37
Written back on disposals	—	—	(220)	—	(220)	—
At 31 December 2011 and 1 January 2012	8,822	5,334	7,735	—	21,891	79
Exchange adjustments	—	(1)	(3)	—	(4)	(1)
Charge for the year	1,435	1,300	1,205	—	3,940	34
Disposal of subsidiaries	(10,257)	(5,793)	(8,101)	—	(24,151)	—
At 31 December 2012	**—**	**840**	**836**	**—**	**1,676**	**112**
Carrying amounts						
At 31 December 2012	**—**	**796**	**1,242**	**—**	**2,038**	**45**
At 31 December 2011	2,824	3,913	3,824	40,785	51,346	80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

16. Investment Properties

	The Group	
	2012	2011
	RMB'000	RMB'000
Completed investment properties at fair value:		
At 1 January	**1,670**	1,670
Additions	**—**	—
Fair value gain	**230**	—
At 31 December	**1,900**	1,670

(a) Valuation of investment properties

The investment properties amounted to approximately RMB1,900,000 (2011: RMB1,670,000) of the Group were stated at fair value as at 31 December 2012. The fair value were arrived at based on the valuations carried out by an independent firm of qualified professional valuers, Asset Appraisal Limited, ("AAL"), who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of the properties being valued. The valuations conform to the Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

(b) The analysis of the carrying amount of investment properties is as follows:

	2012	2011
	RMB'000	RMB'000
In the PRC		
— medium-term leases	**1,900**	1,670

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

17. Intangible Assets

Movements in intangible assets of the Group are as follows:

	Intellectual properties RMB'000 (note c)	Exclusive rights RMB'000 (note a)	Exclusive skin care products distribution license RMB'000 (note b)	Total RMB'000
Cost				
At 1 January 2011	—	5,000	7,193	12,193
Acquisition (note 36)	134,338	—	—	134,338
Exchange adjustments	(2,563)	—	—	(2,563)
At 31 December 2011 and 1 January 2012	131,775	5,000	7,193	143,968
Exchange adjustments	(419)	—	—	(419)
Disposal of subsidiaries	—	(5,000)	—	(5,000)
At 31 December 2012	**131,356**	**—**	**7,193**	**138,549**
Accumulated amortisation and impairment				
At 1 January 2011	—	5,000	3,721	8,721
Amortisation expenses	16,704	—	694	17,398
Exchange adjustments	(232)	—	—	(232)
At 31 December 2011 and 1 January 2012	16,472	5,000	4,415	25,887
Amortisation expenses	16,420	—	694	17,114
Exchange adjustments	(53)	—	1	(52)
Impairment loss	—	—	2,083	2,083
Disposal of subsidiaries	—	(5,000)	—	(5,000)
At 31 December 2012	**32,839**	**—**	**7,193**	**40,032**
Carrying amounts				
At 31 December 2012	**98,517**	**—**	**—**	**98,517**
At 31 December 2011	115,303	—	2,778	118,081

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

17. Intangible Assets *(Continued)*

(a) Intangible assets represents exclusive rights acquired by the Group to produce and sell the products of "Plasmin Capsule" and "Puli Capsule" within and outside the PRC.

(b) The exclusive skin care products distribution license's useful life used in the calculation of amortisation is 6 years

During the year ended 31 December 2012, as the result of the unexpected poor performance of the distribution of skin care products in the PRC, the Group carried out a review of the recoverable amount of the exclusive skin care products distribution license. The value-in-use at 31 December 2012 was calculated to be lower than the carrying amount of the exclusive skin care products distribution license and accordingly an impairment loss of approximately RMB2,083,000 was recognised during the year ended 31 December 2012.

The recoverable amount of exclusive skin care products distribution license for the year ended 31 December 2012 was determined based on value-in-use calculations. The impairment review of the distribution skin care product license is based on the expected future cash flows and based on the financial budgets approved by management covering a 5-year period. Discount rate of 11.05% was applied on the value-in-use calculations.

(c) The intellectual property's useful life used in the calculation of amortization is 8 years.

(d) The amortisation charge for the year is included in "general administrative expenses" in the consolidated statement of comprehensive income.

18. Goodwill

	The Group	
	2012	2011
	RMB'000	RMB'000
Cost:		
At 1 January and 31 December	**6,821**	6,821
Accumulated impairment loss:		
At 1 January and 31 December	**—**	—
Carrying amounts:		
At 31 December	**6,821**	6,821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

18. Goodwill *(Continued)*

Particular of impairment testing on goodwill are disclosed below:

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

— Health spa business

Before recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units as follows:

	2012 RMB'000	2011 RMB'000
Health spa business	6,821	6,821

The recoverable amount of this cash-generating units has been determined based on a value in use calculation which uses cash flow projection based on financial budgets approved by the directors covering a five year period, and discount rate of 17.31% per annum. Cash flows beyond that five-year period have been extrapolated using a steady 3% growth rate. This growth rate does not exceed the long-term average growth rate for the market. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

The key assumptions used in the value in use calculations as follows:

Budgeted market share	Average market share in the period immediately before the budget period. The values assigned to the assumption reflect past experience.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period which reflects past experience.

19. Interests in Associates

	The Group	
	2012 RMB'000	2011 RMB'000
Cost of investments in associates	3,400	8,400
Share of results of associates	(410)	(1,553)
	2,990	6,847
Disposed during the year	—	(3,848)
Impairment loss recognised (note)	(2,990)	(2,990)
At 31 December	—	9

Note:

During the year ended 31 December 2011, the Group disposed its 29.41% interest in 中視和陽科技傳媒(北京)有限公司 upon the disposal of subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

19. Interests in Associates *(Continued)*

During the year ended 31 December 2012, the associate was deregistered.

During the year ended 31 December 2012, the Group had interests in the following associates:

Name of entity	Form of entity, place of incorporation/ registration and operations	Particulars of issued share capital	Proportion of nominal vale of issued capital held by the Group	Proportion of voting power hold	Principal activities
江油市元神醫葯科技開發有限公司	Incorporated in PRC	Registered capital of RMB1,000,000	41%	41%	Research and development on chinese herbal medicine

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Total assets	**—**	22
Total liabilities	**—**	—
Net assets	**—**	22
Group's share of net assets of associates	**—**	9
Turnover	**—**	264
Loss for the year	**20**	2,465
Group's share of loss of associates	**9**	801
Group's share of other comprehensive expenses	**—**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

20. Investments in Subsidiaries

In the Company's statement of financial position, investments in subsidiaries consist of:

	The Company 2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	14,677	70,841
Less: Impairment loss recognised	(963)	(56,164)
	13,714	14,677

Note:

During the year, the subsidiaries incurred losses continuously and the directors of the Company carried out a review on the recoverable amounts of the investments in subsidiaries. The carrying amounts of the investments in subsidiaries are reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries. Accordingly, Impairment losses of approximately RMB963,000 (2011: Nil) were made during the year.

During the year, the Group disposed of 100% of its interest in Garner International Limited and the proceeds from disposal amounted to approximately RMB2,445,000 (Equivalent to HK$3,000,000) were received in cash on completion date. Details please refer (note 37).

The particulars of all subsidiaries of the Company at 31 December 2012 were as follows:

Name of company	Place of incorporation/ registration operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest and voting power held by the Company Directly	Indirectly	Principal activities
西安金皓資產管理有限公司 (note i)	PRC	HK$3,000,000	—	100%	Investment holding
Premium Stars Investments Limited	BVI	50,000 ordinary of US$1 each	100%	—	Investment holding
Jin Hao Limited ("Jin Hao")	BVI	100 ordinary of US$1 each	100%	—	Investment holding
Merry Sky Limited ("Merry Sky")	BVI	1 ordinary of US$1 each	100%	—	Cosmetic license holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

20. Investments in Subsidiaries *(Continued)*

Name of company	Place of incorporation/ registration operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest and voting power held by the Company Directly	Indirectly	Principal activities
Smart Courage Limited	BVI	1 ordinary of US$1 each	—	100%	Investment holding
Earth Buddy (Intellectual property) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	—	100%	Sale of biodegradable products
Earth Buddy Environmental Limited	Hong Kong	10,000 ordinary shares of HK$1 each	—	100%	Sale of biodegradable products
Famous Reliance Limited	BVI	50,000 ordinary of US$1 each	100%	—	Investment holding
Create Profit Enterprises Limited	Hong Kong	10,000 ordinary shares of HK$1 each	—	100%	Finance and money lending

Note:

(i) Registered as wholly-owned foreign enterprise under the law of the PRC.

The above table lists the subsidiaries of the Group, which, in the opinion of the directors, principally affected the results or assets of the Group. The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length.

21. Inventories

	The Group 2012 RMB'000	2011 RMB'000
Raw materials	—	3,809
Finished goods	—	1,384
Consignment goods	—	4,537
	—	9,730
Less: Write-down of inventories	—	(1,800)
	—	7,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

22. Trade and Other Receivables, Prepayments and Deposits

	The Group 2012 RMB'000	The Group 2011 RMB'000	The Company 2012 RMB'000	The Company 2011 RMB'000
Trade debtors	**3,798**	68,943	**—**	—
Less: allowance for doubtful debts (note 22(b))	**—**	(62,419)	**—**	—
	3,798	6,524	**—**	—
Other receivables	**8,119**	9,542	**382**	383
Trade deposit	**778**	—	**—**	—
Rental and other deposits	**530**	615	**519**	595
Prepayments	**124**	2	**123**	1
Amounts due from subsidiaries *	**—**	—	**81,818**	82,169
	13,349	16,683	**82,842**	83,148
Less: Loan receivables — non-current portion	**(2,038)**	—	**—**	—
	11,311	16,683	**82,842**	83,148

* The amounts due from subsidiaries are non-trade nature, unsecured, interest free and repayable on demand. Due to the prolonged poor financial performance of the subsidiaries, the carrying amounts due from subsidiaries are reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows reference to be generated from the respective subsidiaries.

a) Ageing analysis

Included in trade and other receivables are trade debtors with the following ageing analysis as of the end of the reporting period:

	The Group 2012 RMB'000	The Group 2011 RMB'000
0 to 30 days	**3,283**	5,436
31 to 60 days	**440**	854
61 to 90 days	**2**	234
91 to 180 days	**73**	—
181 to 365 days	**—**	—
Over 365 days	**—**	62,419
	3,798	68,943
Less: allowance for doubtful debts	**—**	(62,419)
	3,798	6,524

Customers are generally granted with credit term of 90 days. Further details on the Group's policy are set out in note 35(a)(i).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

22. Trade and Other Receivables, Prepayments and Deposits *(Continued)*

b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 3(j)).

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
At January	**62,419**	62,419
Disposal of subsidiaries	**(62,419)**	—
At 31 December	**—**	62,419

In determining the recoverability of trade debtors, the Group considers any change in the credit quality of the trade receivables.

At 31 December 2012, the Group's trade debtors of approximately RMB Nil (2011: RMB62,419,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Group holds sales deposits from the relevant customers over these balances.

Ageing of impaired trade debtors

	The Group	
	2012	2011
	RMB'000	RMB'000
Overdue by:		
Less than 6 months	**—**	—
More than 6 months	**—**	62,419
	—	62,419

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

22. Trade and Other Receivables, Prepayments and Deposits *(Continued)*

c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither past due nor impaired and that are past due but not impaired are as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**3,725**	6,524
Less than 6 months past due	**73**	—
More than 6 months past due	**—**	—
	73	—
Total	**3,798**	6,524

Trade debtors that were neither past due nor impaired relate to a range of customers for whom there was no recent history of default.

Trade debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group holds sales deposits from the relevant customers over these balances.

23. Financial Assets at Fair Value Through Profit or Loss

	The Group	
	2012	2011
	RMB'000	RMB'000
Listed investments:		
Equity securities listed in Hong Kong and stated at fair value	**—**	6,880

All financial assets at fair value through profit or loss are stated at fair values. Fair values of the listed investments are determined by reference on the quoted market bid prices available on the Stock Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

24. Cash and Bank Balances

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand, denominated in				
— Hong Kong dollars and United Sates dollars	**4,197**	10,559	**140**	384
— Renminbi	**372**	1,451	**—**	—
Cash and cash equivalents in statements of financial position and consolidated statement of cash flows	**4,569**	12,010	**140**	384

Cash and bank balances of approximately RMB372,000 (2011:RMB1,451,000) are denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government. Cash at banks earn interest at floating rates based on daily bank deposits rate.

25. Trade and Other Payables

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**856**	3,331	**—**	—
Accrued expenses and other payables	**6,339**	40,590	**3,602**	3,585
Amount due to subsidiary*	**—**	—	**793**	314
Amount due to directors*	**997**	4,925	**—**	—
	8,192	48,846	**4,395**	3,899

* The amounts due to the subsidiary and the directors are unsecured, non-interest bearing and have no fixed terms of repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

25. Trade and Other Payables *(Continued)*

Included in trade and other payables are trade creditors with the following ageing analysis:

	The Group	
	2012	2011
	RMB'000	RMB'000
0 to 30 days	**856**	1,028
31 to 60 days	—	155
61 to 90 days	—	136
91 to 180 days	—	46
181 to 365 days	—	—
Over 365 days	—	1,966
	856	3,331

The average credit period on purchases of goods is 30 days.

26. Bank and other Borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost.

		The Group	
		2012	2011
	Notes	**RMB'000**	RMB'000
Unsecured interest-bearing bank loan	(a)	—	5,000
Unsecured interest-bearing other loans			
— Loan A	(b)	—	27,000
— Loan B	(c)	—	23,000
Amounts shown under current liabilities, on demand or within one year		—	55,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

26. Bank and Other Borrowings *(Continued)*

Notes:

(a) The weighted averaged effective interest rate on unsecured interest-bearing bank loan is 10.44% per annum.

(b) During the year ended 31 December 2011, the Group entered into a loan agreement with a financial institution (the "Party A") whereby the Group borrowed a loan of RMB27,000,000 (the "Loan A") from the Party A for the period from 18 July 2011 to 20 June 2012. The Loan A is unsecured an bearing interest 10.89% per annum.

(c) During the year ended 31 December 2011, the Group entered into the five loan agreements with independent third parties. The loans were unsecured and bearing interest range from 2% to 4% per month.

27. Convertible Notes

The Group and the Company

On 27 May 2011, the Company issued 3% coupon convertible notes the ("Convertible Notes") with a principal amount of HK$120,000,000 (equivalent to approximately RMB100,020,000). Each note entitled the holder to convert to ordinary share of the Company at a conversion price of HK$0.10 per conversion share. The convertible notes were issued as part of the consideration for acquisition of Smart Courage Limited and its subsidiaries ("Smart Courage Group") (note 36). The maturity date of the Convertible Notes is the date immediately preceding the second anniversary of the date of issue of the Convertible Notes. The effective interest rate of the liability component on initial recognition is 10.913% per annum.

The Convertible Notes recognised in the statement of financial position was calculated, as follows:

	2012	2011
	RMB'000	RMB'000
At 1 January	**92,499**	—
Initial recognition	**—**	86,450
Interest charged calculated at an effective interest rate of 10.913%	**9,662**	5,605
Interest paid	**(2,942)**	(1,783)
Exchange adjustments	**(294)**	(1,701)
Fair value changes	**(1,103)**	3,928
At 31 December	**97,822**	92,499

Interest expense on the Convertible Notes is calculated using the effective interest method by applying the effective interest rate of 10.913% to the liability component. The fair values of the convertible notes has been arrived on the basis of a valuation carried out on the date of issue and at the end of the reporting period by independent professional valuers not connected with the Group. The effective interest rate range from 7.556% to 10.931% per annual.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

28. Promissory Notes

The Group

On 27 May 2011, Premium Stars Investment Limited, a wholly owned subsidiary of the Company issued promissory notes with a principal amount of HK$30,000,000 (equivalent to approximately RMB25,005,000) for acquiring the entire issued share capital of Smart Courage Group (the "Promissory Notes"). The fair value of Promissory Notes was approximately HK$26,959,000 (equivalent to approximately RMB22,470,000) on 27 May 2011. The Promissory Notes bear interest at 5% per annum and are repayable in the second anniversary from the date of issue of Promissory Notes. The effective interest rate is 10.913%.

The movement of the carrying amount of the Promissory Notes during the year ended 31 December 2012 is set out below:

	2012 RMB'000	2011 RMB'000
At 1 January	22,746	—
Consideration for acquisition of intangible assets through acquisition of subsidiaries (note 36)	—	22,470
Interest charged calculated at an effective interest rate of 10.913%	2,482	1,458
Interest paid	(1,223)	(743)
Exchange adjustments	(73)	(439)
At 31 December	23,932	22,746

As at 31 December 2012, the fair value of promissory notes was approximately HK$30,590,000 (equivalent to approximately RMB24,931,000) (2011:HK$29,395,000 (equivalent to approximately RMB24,033,000).

29. Income Tax in the Consolidated Statement of Financial Position

(a) Current taxation in the consolidation statement of financial position represents:

	The Group 2012 RMB'000	2011 RMB'000
Provision for PRC enterprise income tax for the year	886	—
Provision for Hong Kong profit tax	91	—
	977	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

29. Income Tax in the Consolidated Statement of Financial Position *(Continued)*

(b) Deferred taxation recognised

The Group has been provided deferred tax liabilities for the temporary difference for the fair value adjustment of investment properties of approximately RMB37,000 (2011: Nil).

At the end of the reporting period, no deferred tax assets has been recognised in relation to the deductible temporary difference and tax losses as it is not probable that taxable profit will be available against which the deductible temporary difference and tax losses can be utilised (2011: Nil). The Group and the Company has tax losses of approximately RMB11,475,000 (2011: RMB6,876,000), which do not expire under current tax legislation.

30. Capital and Reserves

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reduction reserve RMB'000	Share-based compensation RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	14,607	61,210	56,774	92,489	20,103	(1,390)	(217,621)	26,172
Loss for the year	—	—	—	—	—	—	(37,894)	(37,894)
Other comprehensive income								
Exchange difference translating into presentation currency	—	—	—	—	—	228	—	228
Total comprehensive loss	—	—	—	—	—	228	(37,894)	(37,666)
Issue of shares upon placing, net of share issuance expenses	2,515	10,870	—	—	—	—	—	13,385
At 31 December 2011 and 1 January 2012	17,122	72,080	56,774	92,489	20,103	(1,162)	(255,515)	1,891
Loss for the year	—	—	—	—	—	—	(7,603)	(7,603)
Other comprehensive income								
Exchange difference translating into presentation currency	—	—	—	—	—	236	—	236
Total comprehensive loss	—	—	—	—	—	236	(7,603)	(7,367)
At 31 December 2012	17,122	72,080	56,774	92,489	20,103	(926)	(263,118)	(5,476)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

30. Capital and Reserves *(Continued)*

(b) Share capital

(i) Authorised and issued share capital

	Notes	2012 Number of shares '000	2012 Nominal value HK$'000	2011 Number of shares '000	2011 Nominal value HK$'000
Authorised:					
Ordinary shares of HK$0.01 each		20,000,000	200,000	20,000,000	200,000

	Notes	2012 Number of shares '000	2012 Nominal value of ordinary shares HK$'000	2012 Nominal value of ordinary shares RMB'000	2011 Number of shares '000	2011 Nominal value of ordinary shares HK$'000	2011 Nominal value of ordinary shares RMB'000
Ordinary share, issued and fully paid		1,832,091	18,320	17,122	1,532,091	15,320	14,607
Shares issued upon placing	(ii)	—	—	—	300,000	3,000	2,515
		1,832,091	18,320	17,122	1,832,091	18,320	17,122

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Share issued upon placing as follow:

On 29 March 2011, the Company entered into the placing agreement with the placing agent pursuant to which the placing agent agreed to place, on a best effort basis, 300,000,000 new shares to independent investors at the placing price of HK$0.055 per placing share. The net proceeds from the placing of approximately HK$15,900,000 (equivalent to approximately RMB13,385,000) was raised for general working capital of the Group. The placing was completed on 21 April 2011.

(c) Nature and purpose

(i) Share premium

Share premium represents the share premium of the Company, the application of which is governed by the Companies Law of the Cayman Islands. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

30. Capital and Reserves *(Continued)*

(c) Nature and purpose *(Continued)*

(ii) Capital reserve

Capital reserve represents the difference between the aggregate nominal value of the share capital issued by the Company and the aggregate amount of the issued share capital of subsidiaries acquired by the Company through an exchange of shares.

(iii) Share-based compensation reserve

Share-based compensation reserve comprises the portion of the grant date fair value of unexercised share options granted to employees and other service providers of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(o)(ii).

(iv) General fund reserve

According to the relevant laws and regulations in the PRC, Shanxi Everpride, as a wholly foreign-owned enterprise established in the PRC, is required to appropriate at least 10% of after-tax profit (after offsetting prior years' losses), based on the PRC statutory financial statements prepared in accordance with the generally accepted accounting principles and financial regulations applicable to the PRC enterprises, to a general fund reserve until the balance of the fund reaches 50% of its registered capital. Thereafter, any further appropriation can be made at the directors' discretion.

The general fund reserve can be utilised to offset the prior years' losses, or be utilised to increase the capital on the condition that the general fund reserve shall be maintained at a minimum of 25% of the registered capital after such increase.

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(s).

(vi) Contributed surplus

The contributed surplus of the Company represents the difference between the aggregate nominal value of the share capital issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares.

Under the Companies Law (2000 Revision) of the Cayman Islands, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

30. Capital and Reserves *(Continued)*

(d) Distributability of reserves

In the opinion of the Company's directors, as at 31 December 2012 and 2011, the Company has no reserves available for distribution to its shareholders.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The capital structure of the Group consists of (i) debt, which includes loans and other borrowings convertible notes and promissory notes; (ii) cash and cash equivalents; and (iii) capital, which comprises all components of equity.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In order to balance its overall capital structure, the Group may issue new shares, raise new debt financing or sell assets to reduce debt.

The Group monitors its capital structure on the basis of gearing ratio. The Group's gearing ratio as at 31 December 2012 is 103% (2011:99%), which is calculated by dividing total liabilities of approximately RMB130,960,000 (2011:RMB219,091,000) over the total assets of approximately RMB127,194,000 (2011: RMB221,430,000).

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

31. Equity Settled Share-based Transactions

On 5 July 2001, the Company had adopted a share option scheme (the "Old Scheme") for the purpose of providing incentives and rewards to eligible employees for their contribution to the Group. Eligible employees of the Old Scheme include all executive directors, executives, officers and full-time employees of the Group. The Old Scheme was effective for a period of 10 years commencing from 5 July 2001, after which period no further options will be granted but the provisions of the Old Scheme shall in all other respects remain in full force and effect.

On 24 September 2009, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted. As a result, the Company can no longer grant any further share options under the Old Scheme. In addition, no share option was granted prior to the termination of the Old Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

31. Equity Settled Share-based Transactions *(Continued)*

The Company has the New Scheme which was adopted on 24 September 2009 whereby the directors of the Company are authorised, at their discretion, to invite eligible participants of the Group, including the employees and directors of any company in the Group, to take up options at HK$10 consideration to subscribe for shares of the Company. The New Scheme remains in force for a period of 10 years from adoption of such scheme and expires on 23 September 2019. The exercise period of the share options granted is determined by the directors of the Company but not later than 10 years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
2012			
Options granted to directors of the Company:			
On 22 January 2010	**86,760,000**	**Immediately from the date of grant**	**10 years**
On 11 November 2009	**65,000,000**	**Immediately from the date of grant**	**10 years**
Total share options granted	**151,760,000**		
2011			
Options granted to directors of the Company:			
On 22 January 2010	86,760,000	Immediately from the date of grant	10 years
On 11 November 2009	65,000,000	Immediately from the date of grant	10 years
Total share options granted	151,760,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2012		2011	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**HK$0.211**	**65,000,000**	HK$0.211	65,000,000
	HK$0.2488	**86,760,000**	HK$0.2488	86,760,000
Granted during the year	**—**	**—**	—	—
Outstanding at the end of the year	**HK$0.2326**	**151,760,000**	HK$0.2326	151,760,000
Exercisable at the end of the year	**HK$0.2326**	**151,760,000**	HK$0.2326	151,760,000

The weighted average share price at the date of exercise for shares options exercised during the year was HK$0.2326 (2011: HK$0.2326) and a weighted average remaining contractual life of 7 years (2011: 8 years).

No options have been granted, exercised or cancelled during the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

31. Equity Settled Share-based Transactions *(Continued)*

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

Fair value at measurement date	HK$0.1365
Share price	HK$0.2488
Exercise price	HK$0.2488
Expected volatility (expressed as weighted average volatility used in the modeling under binomial model)	118.795%
Option life (expressed as weighted average life used in the modeling under binomial model)	4 years
Expected dividends	0.000%
Risk-free interest rate (based on Hong Kong Exchange Fund Notes)	1.51%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of share options), adjusted for an expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

32. Retirement Benefits Scheme

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

As stipulated by the rules and regulations in the PRC, Shanxi Everpride, a subsidiary established in the PRC, is required to contribute to a state-sponsored retirement plan for all of its employees at approximately 17% of the basic salary of its employees.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

For the year ended 31 December 2012, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately RMB1,234,000 (2011: RMB1,623,000) which was included in the staff costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

33. Material Related Party Transactions

Save as disclosed else where in the consolidated financial statements, the Group has the following material related party transactions:

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9, is as follows:

	2012 RMB'000	2011 RMB'000
Short-term employees benefit	**1,445**	1,735
Retirement scheme contributions	**32**	26
Total	**1,477**	1,761

Total remuneration is included in "staff cost" (see note 7(b)).

34. Commitments

(a) Capital commitments outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	The Group	
	2012 RMB'000	2011 RMB'000
Capital expenditure authorised and contracted for in respect of acquisition of:		
— property, plant and equipment	**—**	28,038

(b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		**The Company**	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Within 1 year	**1,354**	3,499	**1,354**	1,499
After 1 year but within 5 years	**—**	2,858	**—**	1,359
	1,354	6,357	**1,354**	2,858

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

35. Financial Risk Management and Fair Values

(a) Financial risk factors

The Group's financial assets include cash and cash equivalents, trade and other receivables, prepayments and deposits and financial assets at fair value through profit or loss. The Group's financial liabilities include bank and other borrowings, trade and other payables, convertible notes and promissory notes.

The Group does not have nor has issued financial instruments for trading purposes. Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(i) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer. In this regard, the Directors of the Company consider the Group's and the Company's credit risk is reduced.

The Group has a concentration of credit risk in certain individual customers. At the end of each reporting period, the five largest receivable balances accounted for approximately 99% (2011: approximately 91%) of the trade receivable and the largest trade receivable was approximately RMB1,541,326 (2011: RMB4,701,000) and was approximately 41% (2011: approximately 72%) of the Group's total trade receivables. The Group seeks to minimize its risk by dealing with counterparties which have good credit history. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

The Group has a concentration of risk by geographical location mainly in Hong Kong.

In relation to the Group's deposit with bank, the Group limits its exposure to credit risk by placing deposits with financial institution with high credit rating and no recent history of default. The directors consider that the Group's credit risk on the bank deposits is low. Management continues to monitor the position and will take appropriate action if their ratings are changed. As at 31 December 2012 and 2011, the Group has no significant concentration of credit risk in relation to deposit with bank.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in notes 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

35. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and other lenders to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

The Group

			2012		
	Carrying Amount RMB'000	Total Contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Trade and other payables	8,192	8,192	8,192	—	—
Convertible notes	97,822	98,112	98,112	—	—
Promissory notes	23,932	24,528	24,528	—	—
	129,946	130,832	130,832	—	—

			2011		
	Carrying Amount RMB'000	Total Contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Trade and other payables	48,846	48,846	48,846	—	—
Loans and borrowings	55,000	55,000	55,000	—	—
Convertible notes	92,499	98,112	2,943	95,169	—
Promissory notes	22,746	24,528	1,226	23,302	—
	219,091	226,486	108,015	118,471	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

35. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Liquidity risk *(Continued)*

The Company

	2012				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Trade and other payables	4,395	4,395	4,395	—	—
Convertible notes	97,822	98,112	98,112	—	—
	102,217	102,507	102,507	—	—

	2011				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Trade and other payables	3,899	3,899	3,899	—	—
Convertible notes	92,499	98,112	2,943	95,169	—
	96,398	102,011	6,842	95,169	—

(iii) Interest rate risk

The Group's interest rate risk arises primarily from bank and other borrowings, promissory notes and convertible notes. The interest rates and maturity information of the Group's bank and other borrowings, promissory notes and convertible notes are disclosed in notes 26, 27 and 28.

The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant fixed-rate bank and other borrowings should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

35. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(iii) Interest rate risk *(Continued)*

Sensitivity analysis

At 31 December 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss after tax and accumulated losses by approximately RMB1,172,000 (2011: approximately RMB1,582,000). Other components of equity would not be affected (2011: nil) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in the respective interest rates over the period until the next annual reporting period.

(iv) Currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

As most of the Group's monetary assets and liabilities are denominated in Renminbi and Hong Kong dollars and the Group conducts its business transactions principally in Renminbi and Hong Kong dollars, the exchange rate risk of the Group is not significant and the Group does not employ any financial instruments for hedging purposes.

(v) Equity price risk

The Group is exposed to equity price risk mainly through its investment in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with difference risk and return profiles. The Group exposed to equity price risk arising from changes in the Group's financial assets at fair value through profit or loss.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the reporting date. If equity price had been 5% higher/lower, the Group's net profit/(loss) for the year would increase/decrease by approximately RMBNil (2011: RMB334,000). This is mainly due to the changes in financial assets at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

35. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(vi) Fair values of financial instrument

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

i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 December 2012 and 2011.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

35. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(vi) Fair values of financial instrument *(Continued)*

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

At 31 December 2012	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss	—	—	—	—
Available-for-sale financial assets	—	—	—	—
Financial liabilities				
Convertible notes	—	—	97,822	97,822

At 31 December 2011	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss	6,880	—	—	6,880
Available-for-sale financial assets	—	—	—	—
Financial liabilities				
Convertible notes	—	—	92,499	92,499

Reconciliation of Level 3 fair value measurements of financial assets

	Unquoted equity investments 2012 RMB'000	2011 RMB'000
1 January	1,200	1,200
Impairment loss recognised	(1,200)	(1,200)
31 December	—	—

These were no transfer between Level 1, 2 and 3 in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

36. Acquisition of Intangible Asset through Acquisition of subsidiaries

On 24 December 2010, the Group entered into a sale and purchase agreement ("Smart Courage Acquisitions") with an independent third party (the "Smart Courage Vendor") whereby the Group conditionally agreed to acquire the entire issued share capital of Smart Courage Group for a total contracted consideration of HK$180,000,000.

The total consideration of HK$180,000,000, HK$30,000,000 was satisfied by cash, HK$120,000,000 was satisfied by the issue of the Convertible Notes (note 27) and HK$30,000,000 was satisfied by issuance of Promissory Note (note 28) with fair values of HK$30,000,000 (equivalent to approximately RMB25,005,000), HK$103,719,000 (equivalent to approximately RMB86,450,000) and HK$26,959,000 (equivalent to approximately RMB22,470,000) ("Consideration").

The total consideration of HK$180,000,000 is subject to adjustments based on the net profit of the Smart Courage Group for the year ending 30 September 2012 which is less than HK$12,000,000 ("Reference Profit"), the amount payable by the Premium Stars Investments Limited on redemption of the Promissory Note shall be reduced on a dollar for dollar basis by the amount in which such net profits is less than HK$12,000,000. The acquisition was completed on 27 May 2011.

Smart Courage Group has not carried out any significant business transactions on acquisition date. In the opinion of the directors, the acquisition did not constitute an acquisition of business in substance. The acquisition of the intangible assets was then considered as acquisition of assets through acquisition of subsidiaries, Therefore, the acquisition was not accounted for as a business combination in accordance with the requirement of IFRS 3 Business Combination.

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	RMB'000
Net assets acquired:	
Intangible assets	134,338
Other receivables	8
Cash and bank balances	1
Other payables	(422)
Total consideration	133,925
Satisfied by:	
Consideration paid in cash	25,005
Fair value of convertible notes	86,450
Fair value of promissory notes	22,470
	133,925
Net cash outflow arising on acquisition:	
Consideration paid in cash	25,005
Cash and bank balance acquired	(1)
	25,004

Note:

(i) The fair value of the promissory notes and convertible bonds issued has been arrived at on the basis of a valuation carried out on the completion date of the acquisition by an independent qualified professional valuer and not connected with the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

37. Disposal of Subsidiaries

On 16 June 2012, the Group entered into sale and purchase agreement ("S&P") to disposal of its 100% equity interest in Garner International Investments Limited and its subsidiaries to an independent third party (the "Purchaser") for cash consideration of HK$3,000,000 (equivalent to approximately RMB2,445,000). The disposal was completed on 10 October 2012. Summary of the effects of the disposal is as follows:

	RMB'000
Net liabilities disposed of:	
Plant and equipments	68,794
Inventories	9,009
Trade and other receivables	35,587
Cash and bank balances	15,150
Trade and other payables	(106,651)
Bank and other other borrowings	(62,000)
Amounts due to the Group	(32,894)
Net liabilities disposed of	(73,005)

Gain on disposal of subsidiaries

	RMB'000
Consideration received	2,445
Sale loan	(32,894)
Net liabilities disposed	73,005
Release of capital reserve	7,195
Release of general fund reserve	9,025
Release of exchange reserve	7,568
Gain on disposal	66,344

The gain on disposal is included in the loss for the year from discounted operations in the consolidated statement of comprehensive income (note 11).

Net cash outflow from disposal of subsidiaries

	RMB'000
Consideration received in cash and cash equivalents	2,445
Less: cash and cash equivalent balances disposed of	(15,150)
Net cash outflow from disposal of subsidiaries	(12,705)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

38. Accounting Estimates and Judgements

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

(a) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the trade debtors, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write offs would be higher than estimated.

(b) Impairment for non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(c) Depreciation and amortisation

Plant and equipments are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets except for those with indefinite lives are amortised on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

38. Accounting Estimates and Judgements *(Continued)*

(d) Write-down of inventories

If the costs of inventories fall below their net realisable values, write-down of inventories is recognised. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The Group bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion and other distribution costs were to be higher than estimated, the write-down of inventories could be higher than estimated.

(e) Provision for income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, the management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(f) Impairment for goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. At 31 December 2012, the carrying amount of goodwill of approximately RMB6,821,000. Details of the recoverable amount calculation are disclosed in note 18.

(g) Valuation of investment properties

Investment properties are included in the statement of financial position at their fair value, which is assessed annually by independent qualified valuers, after taking into consideration all readily available information and current market environment.

The methodology and assumptions adopted in the property valuations are mentioned in note 16.

(h) Impairment of intangible assets

Determining whether intangible assets is impaired requires an estimation of the value in use of the cash-generating units. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2012

39. Non-Cash Transactions

During the year ended 31 December 2011, the Group acquired the entire share capital of Smart Courage Group for a total consideration of HK$180,000,000 (equivalent to approximately RMB150,030,000), the consideration was satisfied by promissory note of approximately HK$30,000,000 (equivalent to approximately RMB25,005,000) and convertible bonds HK$120,000,000 (equivalent to approximately RMB100,020,000).

40. Events after the Reporting Period

(a) On 22 February 2013, Lucky River entered sales and purchase agreement to dispose 100% interest in Zhuhai WFOE to San Cheng Song at a consideration of HK$8,500,000 (equivalent to approximately RMB6,932,000). The directors consider that the Group shall streamline its business and it is beneficial to the Company to dispose its interest in Zhuhai WFOE so as to focus its financial resources in other business of the Group. The disposal was completed on 19 March 2013.

	RMB'000 (unaudited)
Trade and other receivables, prepayments and deposits	3,479
Cash and bank balances	2
Goodwill	6,821
Tax payables	(886)
Estimated net assets	9,416
Less: consideration	(6,932)
Estimated loss on disposal	2,484

The disposal does not constitute a discontinued operation as it does not represent a major line of business or geographical area of operation of the Group.

(b) On 25 March 2013, the Group received a written confirmation from Talent Keen agreed to extend the maturity date on promissory notes from 27 May 2013 to 27 May 2015 and bear interest at 5% per annum. Further details refer to Company's announcement date 25 March 2013.

41. Comparative financial information

Certain comparative figures have been restated to confirm with current year presentation.

42. Authorisation For Issue of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 March 2013.