Stock Code: 969

# ANNUAL REPORT 2012

**Hua Lien International (Holding) Company Limited**

Incorporated in the Cayman Islands with limited liability

# Contents

# Corporate Information

## Executive Directors

Mr. TANG Jianguo *(Chairman)*
Mr. HAN Hong
Mr. HU Yebi

## Independent Non-executive Directors

Dr. ZHENG Liu
Mr. YU Chi Jui
Ms. LI Xiao Wei

## Company Secretary

Mr. WAN Hok Shing, *FCPA, FCCA, CICPA, ACS, ACIS*

## Registered Office

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

## Principal Place of Business In Hong Kong

Unit 2513A, 25th Floor
113 Argyle Street
Mongkok
Kowloon
Hong Kong

## AUDITOR

HLM CPA Limited
Certified Public Accountants

## Principal Bankers

Industrial and Commercial Bank of China (Asia) Limited
Standard Chartered Bank (Hong Kong) Limited

## Cayman Islands Principal Share Registrar and Transfer Office

The Harbour Trust Co. Ltd.
One Capital Place
P.O. Box 1787
Grand Cayman
Cayman Islands
British West Indies

## Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
18/F, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai
Hong Kong

## Website

http://www.irasia.com/listco/hk/hualien/index.htm

# Chairman's & Management Discussion and Analysis

## Business Review

For the year ended 31st December 2012, the Group recorded turnover of approximately HK$206.2 million (2011: HK$195.1 million). The approximate HK$11.1 million increase in turnover was resulting from the approximate HK$34.7 million increase in orders for agricultural and industrial equipments and accessories, chemical materials, steel, motor vehicles, agricultural and industrial consumables and other products by customers in Madagascar and Benin as their increase in production have drove up the demand of those items, an approximate HK$16.7 million decrease in agricultural and industrial machinery orders since the construction and rehabilitation projects of customers in Madagascar had completed last year and an approximate HK$6.9 million decrease in fertilizer sales due to the slowdown of orders from customers in Madagascar as the inventory of some fertilizers remain high and the replenishment of these yet carried out.

Gross profit for the year ended 31st December 2012 increased by approximately HK$6.6 million to approximate HK$98.4 million (2011: HK$91.8 million) and the gross profit increase by about 1% to approximate 48% for 2012 (2011: 47%). The increase in gross profit was due to the increase in sales of higher gross profit agricultural and industrial equipments and accessories and the decrease in the sale of lower gross profit agricultural and industrial machinery and fertilizers during the year.

The net loss for the period was approximately HK$9.5 million (2011: HK$4.9 million). Basic loss per share for the year ended 2012 was HK0.58 cents (2011: HK0.37 cents). The net loss for the year mainly came from the profit from operations of approximate HK$38.8 million was lower than the finance costs on the effective interest expense on convertible notes of approximate HK$48.3 million and a net loss of approximate HK$9.5 million resulted.

Excluding those non-cash items of amortisation of intangible assets and finance costs, the Group is trading profitably and this indicated by positive operating cash flows before movement in working capital of approximate HK$59 million (2011: HK$60.5 million).

During the year under review, the Group only had one identified segment activities of supporting services to sweetener and ethanol business and all the customers were located in Africa, which recorded a turnover of approximate HK$206.2 million (2011: HK$195.1 million) and the operating profit of this segment was approximately HK$44.4 million (2011: HK$42.6 million). The review of performance of this segment had already covered in above sections.

## Dividend

The Directors do not recommend the payment of a dividend for the years ended 31st December 2012 and 2011.

## Prospects

Looking ahead, the turnover from supporting services for sweetener and ethanol business currently was lower than the same period last year as some inventory items of our customer remain high but we expects the orders momentum will pick up later this year when the inventories level of these items are getting lower. Reference is made to circulars dated 4th March 2013, as independent shareholders have approved the 2013-2014 Jamaica Supply and Service Agreement, Addendum and 2013-2014 Revised Annual Caps for the Continuing Connected Transactions at CCT EGM, the supporting services for sweetener and ethanol business will benefit as it can extend its service to Jamaica and to achieve the intended synergy by lower sourcing cost through volume discount.

For the progress of ethanol biofuel Benin JV in Republic of Benin, the construction site preparation works are undergoing and the trial run is expected to be in the first quarter of 2014.

# Chairman's & Management Discussion and Analysis

## Prospects *(Continued)*

For the current business outlook of the future Jamaica Sugar Industry Project for 2012-2013 crushing season, even the quantity of order on hand for raw sugar and molasses is lower than that of last crushing season because the decrease in rainfall had affected the productivity of sugarcane and thereby, availability of sugarcane for crushing and raw sugar and molasses for sales but this have mitigated by an increase of their respective average order price because of the change in sales channels this crushing season. The costs of sugar production in this crushing season may be higher than last season due to the decline in sugarcane availability would result in an increase in sugarcane costs and a lower capacity use thus a lower fixed cost absorption could cause the fixed cost per unit to rise.

## Financial Review

### Liquidity and Financial Resources

The Group achieved a positive cash inflow from operation of approximately HK$22.4 million during the year and cash inflow from financing activities of approximately HK$480 million. Bank deposits and cash balances as at 31st December 2012 amounted to approximately HK$876.9 million (2011: HK$373.7 million), mainly denominated in Hong Kong Dollars and US Dollars.

Total equity of the Group as at 31st December 2012 amounts to approximately HK$1,043.8 million (2011: HK$573.3 million).

The Group financed its operation with cash flow generated internally. The bank balances were placed in short term deposits with major banks in Hong Kong.

As at 31st December 2012, the Group's total borrowings consisted of the outstanding five-year zero-coupon Hong Kong-dollar convertible notes of approximate HK$585.6 million (2011: HK$537.3 million). The debt to equity ratio of the Group as at 31st December 2012 calculated as a ratio of total borrowings (including convertible notes) to total equity was approximately 56.1% (2011: 93.7%). The decrease in ratio was mainly due to increase in net equity as a result of issue of 800,000,000 shares at HK$0.6 each on 3rd September 2012. All the Group's borrowings as at 31st December 2012 and 31st December 2011 are denominated in Hong Kong Dollars.

### Capital Structure

On 3rd September 2012, 800,000,000 Subscription Shares at the price of HK$0.6 per Subscription Share have been issued to China National Complete Plant Import & Export Corporation (Group) (中國成套設備進出口(集團)總公司) pursuant to the subscription agreement entered on 12th April 2012.

### Treasury Policies

The Group continues to adhere to prudent treasury policies. The Group's overall financial and funding policies were aimed to control credit risk to lower the risk of credit sales, the liquidity risk to ensure that funds would be recovered on a timely basis to fulfill the requirement of debt repayment and to closely monitor the overall currency and interest rate exposures to minimize risks in their fluctuation. When considered appropriate the Group will hedge against currency exposure as well as interest rate exposure.

The Group did not use any derivative financial instruments to hedge for its risk exposure during the year ended 31st December 2012 and 2011.

## Financial Review *(Continued)*

### Foreign Exchange Exposure

The sales and purchases of the Group during the year are mainly denominated in same currency of United States Dollars. Hence, the Group's exposure to foreign exchange risk arising from sales and purchases is expected to be minimal. The use of financial instruments for hedging purposes is not considered necessary. Currency exposure arising from net assets of the foreign operations of the Group is managed primarily through financing denominated in the relevant foreign currencies. The Group did not use any derivative financial instruments to hedge for its foreign exchange risk exposure on net assets during the year ended 31st December 2012.

### Contingent Liabilities

At the end of reporting period, the Company had not provided any guarantees in favour of any third party nor were there any significant contingent liabilities.

### Pledge of Assets

As at 31st December 2012 and 31st December 2011, River Right Limited (the "River Right", a wholly-owned subsidiary of the Company) had pledged its interest in 65 shares in Zheng Da Investments Limited (the "Zheng Da"), representing 65% of issued capital, as security for the five-year zero-coupon convertible notes of principal amount of HK$24 million issued to China-Africa Xin Xing Investment Limited (the "CAXX", a wholly-owned subsidiary of China-Africa Development Fund "CADFund").

### Capital Commitment

As at 31st December 2012, the Group did not have any significant capital commitments.

### Significant Investment Held

The Group had not made any significant investment during the years ended 2012 and 2011.

### Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

The Group had no material acquisition or disposal of subsidiaries, associates or jointly controlled entities during the year under review.

# Chairman's & Management Discussion and Analysis

## Financial Review *(Continued)*

### Future plans for material investments and capital assets

The Company signed the MOU on 31st January 2010 in respect of the Possible Transactions. Definitions used in the Announcement on 1st February 2010 are adopted herein unless the context requires otherwise. The Board is currently considering entering into joint ventures with CADFund and COMPLANT for long term strategic cooperation to develop Ethanol Biofuel Business in various African countries. The initial phase is to incorporate Benin JV and use it as a vehicle to establish a Benin PC in the Republic of Benin, a country in West Africa, for engaging in Ethanol Biofuel Business. In order to finance the Benin JV and the operation of Benin PC, the Company have raised approximately HK$78 million (before deducting related expenses) by way of (i) issue of new Shares for approximately HK$54 million (before deducting related expenses) and (ii) issue of the first batch of Convertible Notes for approximately HK$24 million (before deducting related expenses) to CAXX (a wholly owned subsidiary of CADFund) on 26th August 2011. Other than Benin JV, the Company is considering incorporating companies with CADFund and COMPLANT under Other JV as holding companies to set up companies in other African countries for developing business in the generation of renewable energy. For the purpose of funding such Other JV, the Company also considers to issue the remaining batch of Convertible Notes to CADFund in the ensuing 3 years to raise approximately HK$312 million (before deducting related expenses). The terms and conditions (including but not limited to the amounts of investments and the forms of cooperation) have not yet been finalized and further negotiations are necessary. Further information concerning the progress on the Benin JV is shown in "Prospects" section.

Reference is made to the circular dated 11th December 2012 in relation to, among other things, the entering into of the Joint Venture Agreement among the Company, COMPLANT and the JV Company, pursuant to which (i) the Company has conditionally agreed to purchase and COMPLANT has conditionally agreed to sell the Sale JV Company Shares after the issue and allotment of the New JV Company Shares to COMPLANT by the JV Company at par value, representing 70% of the equity interest in the JV Company after the issue and allotment of the New JV Company Shares to COMPLANT, for the Consideration of US$3.27 million (approximately HK$25.4 million) which will be satisfied by the payment in cash to COMPLANT; and (ii) the Company and COMPLANT have undertaken to contribute capital amounting to US$88.76 million (approximately HK$688.8 million) and US$38.04 million (approximately HK$295.2 million) respectively into the JV Group by way of share capital and/or shareholders loan, in the proportion of 70% and 30%. The EGM dated 31st December 2012 has approved the Joint Venture Agreement and all the transactions contemplated thereunder. Reference is made to the circular dated 4th March 2012. In view of the ordinary resolution for the Joint Venture Agreement was duly passed by the Independent Shareholders by way of poll at the EGM held on 31st December 2012. The Project Company will become a 70% owned subsidiary of the Company upon JV Completion and it will become a connected person of the Company as defined under Listing Rules. In order to achieve the intended synergy on sourcing, the Board approved the E&M and service of the Project Company will be supplied by SATT. The Continuing Connected Transactions has been approved by Independent Shareholders at CCT EGM. The JV Completion will take place in second quarter of 2013 and the consideration of US$3.27 million (approximately HK$25.4 million) will be funded by the Group's internal resources. Further information concerning the business outlook of Jamaica Sugar Industry Project is shown in "Prospects" section.

## Financial Review *(Continued)*

### Employees and Remuneration Policy

At 31st December 2012, the Group employed 57 full time management, administrative and operation staff in Hong Kong and the PRC (2011: 56).

The Group's emolument policies are formulated on the bases of individual performance and the salary trend in the various regions, and are reviewed every year. The Company has set up share options plan as an incentive to directors and eligible employees.

**Tang Jianguo**
*Chairman*

Hong Kong, 22nd March 2013

# Profile of Directors and Senior Management

## Directors

### Executive Directors

**Mr. TANG Jianguo**, aged 59, was appointed as Executive Director and Chairman of the Board in December 2012. Mr. Tang studied Manufacturing Processes and Equipment at Tianjin Institute of Textile Science and Technology and graduated in January 1977. Mr. Tang was granted the title of senior engineer in International Commercial Project in December 1996 by the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China. Mr. Tang has over 34 years' experience in foreign trading and economic cooperation, project engineering and corporate management. Mr. Tang started his career as a staff member of Ministry of Foreign Trade and Economic Cooperation in January 1977. He joined West Asia and North Africa Department of China National Complete Plant Import & Export Corporation (Group) ("CHINA COMPLANT") as a staff member in January 1986 and developed his career there. Mr. Tang was appointed as chief of West and North Africa Department in February 1992, as assistant to general manager in March 1993, vice general manager in August 1994 and as director and vice president and general manager of CHINA COMPLANT since December 2001 and as director and president of COMPLANT International Sugar Industry Co., Ltd. since November 2007.

**Mr. HAN Hong**, aged 49, was appointed as Executive Director in May 2009. Mr. Han is also the deputy general manager and director of Sino-Africa Technology & Trading Limited (the "SATT"), appointed since December 2007 and March 2009 respectively, a wholly owned subsidiary of the Company and the director of Sino-Africa Technology & Trading (Hong Kong) Limited, appointed since March 2009, a wholly owned subsidiary of the Company. Mr. Han holds a Bachelor of Engineering from Anhui Institute of Technology majored in Mechanical Technology and Equipment. Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China granted Mr. Han the title of senior engineer in International Commercial Project in December 1996. Mr. Han has over 29 years experience in project engineering, investment and general management. Mr. Han began his career at China National Complete Plant Import and Export Corporation (Group) (formerly known as China National Complete Plant Export Corporation) ("CHINA COMPLANT"), a central-government conglomerate, as a project manager in Spare Parts Department in August 1984. Later, Mr. Han promoted as the deputy division chief in CHINA COMPLANT from January 1993 to November 1994. After, Mr. Han seconded to Zina Enterprise (PVT) Ltd. in Zimbabwe, a subsidiary of CHINA COMPLANT, as the managing director from November 1994 to January 1998. Thereafter, Mr. Han transferred back to CHINA COMPLANT as the general manager in Investment Management Department from April 1998 to November 2007 and also appointed as the chairman of Yunnan Yuanjiang Ever Green Biology (Group) Co., Ltd., a subsidiary of CHINA COMPLANT, from March 2000 to January 2004. Mr. Han was also the general manager and the director of COMPLANT International Sugar Industry Co., Ltd. since September 2012.

**Mr. HU Yebi**, aged 49, was appointed as Executive Director in December 2010. Mr. Hu received his MBA from International Management School of the Netherlands in Delft, Holland and Postgraduate Diploma in Management Engineering from Beijing Institute of Technology in Beijing, China. Mr. Hu has more than 23 years experience in securities and financial services, merger and acquisition and corporate finance. Mr. Hu is a licensed person registered under the Securities and Futures Ordinance (the "SFO") to carry on regulated activities on Dealing in Securities and Advising on Corporate Finance, and Mr. Hu is currently the responsible officer of Vision Finance International Company Limited, a registered institution licensed to carry on Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) of the regulated activities under the SFO. Prior to that, Mr. Hu was the managing director, equity capital markets of DBS Asia Capital Ltd, a subsidiary of DBS Bank Limited (previously known as the Development Bank of Singapore Ltd.) from 14th March 1994 to 15th March 2002. Between 16th March 2002 to 22nd January 2005, Mr. Hu was the founder and chairman of Partners Capital International Limited. From 1st July 2006 to present, Mr. Hu is the founder and chairman of Vision Finance Group Limited, the holding company of Vision Finance International Company Limited. For other listed company and public employment positions previously held, Mr. Hu was an independent non-executive director from 9th May 2005 to 8th May 2006 of VST Holdings Limited, a company listed on Main Board of The Stock Exchange of Hong Kong Limited under Stock Code of 856 and Mr. Hu was also appointed as a part-time member of Central Policy Unit of The Government of the HKSAR from 1st January 2008 to 31st December 2009.

## Directors *(Continued)*

### Independent non-executive Directors

**Dr. ZHENG Liu**, aged 38, was appointed as independent non-executive director and Chairman of the Remuneration Committee and the Audit Committee of the Company. Dr. Zheng joined the Company in July 2007. She received her Ph.D. degree in accounting from University of Southern California in 2003 and her bachelor degree in accounting from Shanghai University of Finance and Economics in 1996. Dr. Zheng is an associate professor in the Department of Accountancy at City University of Hong Kong since August 2011 and was previously an assistant professor in the School of Business at the University of Hong Kong from August 2003 to July 2011. Dr. Zheng is a member of American Accounting Association.

**Mr. YU Chi Jui**, aged 58, was an independent non-executive director and a member of the Remuneration Committee and the Audit Committee of the Company. Mr. Yu joined the Company in May 2001. He has over 23 years experience in sales and marketing in Taiwan and the PRC.

**Ms. LI Xiao Wei**, aged 41, was an independent non-executive director and a member of the Remuneration Committee and the Audit Committee of the Company. Ms. Li joined the Company in September 2004. She has over 12 years experience in sales and marketing in the PRC.

## Senior Management

**Mr. WAN Hok Shing**, aged 46, is the Financial Controller and Company Secretary of the Group. He is responsible for overall financial reporting, corporate finance and compliance matters of the Group. Mr. Wan has over 20 years of experience in corporate finance, listing compliance, accounting and auditing. Prior to joining the Group in August 1999, he held a senior finance position in another Main Board listed company and worked at one of the big four international accounting firms for about five years. Mr. Wan was in charge of the Group's initial public offering on the Main Board in 2000 and he also assist the Group in a series of subsequent financial activities including fund raising, acquisition and corporate restructuring activities etc. He is currently a Fellow Member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, an Associate Member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and a Member of The Chinese Institute of Certified Public Accountants. He has completed Level II of the Chartered Financial Analyst (CFA) Exam. Mr. Wan holds a Bachelor's Degree with Honours in Hospitality Management from the Hong Kong Polytechnic University and a Diploma of Legal Studies with distinction from the University of Hong Kong.

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December 2012.

## Principal Activities

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries are set out in note 30 to the financial statements.

## Results and Appropriations

The results of the Group for the year ended 31st December 2012 are set out in the consolidated statement of comprehensive income on page 28.

The directors do not recommend the payment of any dividend in respect of the year ended 31st December 2012.

## Financial Summary

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 72.

## Property, Plant and Equipment

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$0.2 million for the purpose of expanding its business. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

## Share Capital

Details of the Company's share capital are set out in note 23 to the financial statements.

## Distributable Reserves of the Company

The Company's reserves available for distribution consisted of contributed surplus of approximately HK$468,576,000 (2011: HK$468,576,000) that offset the accumulated losses of approximately HK$667,509,000 (2011: HK$612,911,000). There were no net distributable reserves available as at 31st December 2012 and 2011.

## Major Customers and Suppliers

The aggregate sales attributable to the Group's five largest customers during the year accounted for approximately 100% of the Group's turnover and the Group's largest customer accounted for approximately 43% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 99% of the Group's total purchases and the Group's largest supplier accounted for approximately 94% of the Group's total purchases.

At no time during the year did a director, an associate of a director or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest suppliers.

## Directors and Directors' Service Contracts

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

**Executive Directors:**

Mr. Tang Jianguo (appointed on 21st December 2012)
Mr. Han Hong
Mr. Hu Yebi
Mr. Xiao Longlong (resigned on 21st December 2012)

**Independent Non-Executive Directors:**

Dr. Zheng Liu
Mr. Yu Chi Jui
Ms. Li Xiao Wei

In accordance with Articles 99 and 116 of the Company's Articles of Association, Mr. Tang Jianguo, Mr. Hu Yebi and Ms. Li Xiao Wei will be retired from the office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The terms of office of each of the independent non-executive directors is the period up to his retirement by rotation as required by the Company's Articles of Association.

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

## Biographical Details of Directors and Senior Management

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Profile of Directors and Senior Management" on pages 8 to 9 of this annual report.

# Directors' Report

## Directors' Interests in Securities

As at 31st December 2012, the interests of the directors and their associates in the ordinary shares in the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows;

| | Number of ordinary shares held | | | | |
|---|---|---|---|---|---|
| **Name of director** | **Beneficial Owner** | **Held by Spouse** | **Held by controlled corporation** | **Total** | **Approximate % of the issued share capital** |
| Mr. Hu Yebi | – | 3,448,000 | 212,495,083 | 215,943,083 | 9.86% |

Note: Mr. Hu Yebi and his spouse, Ms. Li Ling Xiu are deemed (by virtue of the SFO) to be interested in 340,943,083 Shares, among these 340,943,083 shares, as to 3,448,000 Shares held by Ms. Li Ling Xiu and as to 212,495,083 shares and also as to 125,000,000 shares convertible from convertible notes of principal amount of HK$75,000,000 held by Hollyview International Limited, a company beneficially owned by Mr. Hu Yebi.

Save as disclosed above, none of the directors or their associates had any interests or short positions in any securities of the Company or any of its associated corporation as at 31st December 2012.

## Share Options

### 2000 Share Option Scheme

The Company's 2000 Share Option Scheme was adopted pursuant to a resolution passed on 4th January 2000 and has terminated by a resolution passed by shareholders on 20th September 2007.

During the year ended 31st December 2012, there are no option was granted since adoption under the terminated 2000 share option scheme.

### 2007 Share Option Scheme

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2007 Share Option Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 20th September 2007. The purpose of the 2007 Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to the employees, directors, consultants and advisers of the Group and to promote the success of the Group. The details of the 2007 Share Option Scheme as pursuant to the Listing Rules, are set out in the Company's circular dated 3rd September 2007.

As at the end of reporting period, no share option has been granted under the 2007 Share Option Scheme since its adoption.

Particulars of the Company's share option schemes are set out in note 26 to the consolidated financial statements,

## Arrangements to Purchase Shares or Debentures

Other than the share option scheme as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of share in, or debentures of, the Company or any other body corporate.

## Substantial Shareholders

Apart from the interest of the Directors in shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) as disclosed in the section “Directors Interest in Securities”, the register kept under section 336 of the SFO shows that as at 31st December 2012 the Company has been notified of the following interest in the shares of the Company.

### Long Position

| | Nature of interests and capacity in which interest are held | | | |
|---|---|---|---|---|
| **Name** | **Beneficial owner** (Note 2) | **Held by controlled corporation** | **Total** | **Approximate % of the issued share capital** |
| China National Complete Plant Import & Export Corporation (Group) (“China Complant”) | 800,000,000 | – | 800,000,000 | 36.51 |
| COMPLANT International Sugar Industry Co., Ltd. (“COMPLANT”) (Note 1) | 300,000,000 | – | 300,000,000 | 13.69 |

Note 1: In addition to the 300,000,000 Shares, COMPLANT holds convertible notes of principal amount HK$533.7 million convertible into 889,500,000 Shares representing 40.59% of the issued capital of the Company.

Note 2: State-owned Assets Supervision and Administration Commission (中國國務院國有資產監督管理委員會) holds 100% of the State Development & Investment Corp. (國家開發投資公司) which holds 100% of China Complant which in turn holds 70% in COMPLANT.

# Directors' Report

## Connected Transactions and Continuing Connected Transactions

### Connected Transactions

(a) On 3rd September 2012, 800,000,000 Subscription Shares at the price of HK$0.6 per Subscription Share have been issued to China National Complete Plant Import & Export Corporation (Group) (中國成套設備進出口(集團)總公司) (which is a controlling shareholder of COMPLANT which is a substantial shareholder of the company) pursuant to the subscription agreement entered on 12th April 2012. Details of this connected transaction set out in the Circular of the Company dated on 27th July 2012. This connected transaction does not constituted related party transactions made during the year that disclosed in note 29 to the consolidated financial statements.

(b) On 3rd August 2012, the Company entered Joint Venture Agreement with COMPLANT and the JV Company. COMPLANT has conditionally agreed to sell the Sale JV Company Shares after the issue and allotment of the New JV Company Shares to COMPLANT by the JV Company at par value, representing 70% of the equity interest in the JV Company after the issue and allotment of the New JV Company Shares to COMPLANT, for the Consideration of US$3.27 million (approximately HK$25.4 million) which will be satisfied by the payment in cash to COMPLANT. This connected transaction has been approved by independent shareholders on 31st December 2012. Details of this connected transaction set out in the Circular of the Company dated on 11th December 2012. As this connected transaction is not yet completed as the end of the reporting period, this does not constitute related party transactions made during the year that disclosed in note 29 to the consolidated financial statements.

### Continuing Connected Transactions

During the year, the continuing connected transactions as detailed below had duly complied with all requirements under Listing Rules. These continuing connected transactions also constitutes related party transactions made during the year that disclosed in note 29 to the consolidated financial statements.

(a) As disclosed in circular dated 21st December 2011, SATT, a wholly owned subsidiary of the Company had entered five supply and service agreements dated 5th December 2011 for an initial term of three years with four subsidiaries of COMPLANT and Zheng Da. This continuing connected transaction had been approved by independent shareholders of the Company on 10th January 2012, the total amount of transaction with the four subsidiaries of COMPLANT during the year was about HK$206.2 million which was within the annual cap of about HK$380.3 million.

(b) As disclosed in circular dated 21st December 2011, SATT had entered a supply and service agreements dated 5th December 2011 for an initial term of three years with substantial shareholder of COMPLANT. This continuing connected transaction had been approved by independent shareholders of the Company on 10th February 2012. The total amount of transaction with substantial shareholder of COMPLANT during the year was about HK$107.8 million which was within the annual cap of about HK$277.3 million.

(c) As disclosed in announcement on 5th December 2011, SATT had entered office tenancy agreements dated 5th December 2011 with substantial shareholder of COMPLANT for an initial term of two years a. As the applicable percentage ratio of the Company in respect of the aggregate annual rentals and management fees payable by SATT under the Tenancy Agreements is less than 0.1%, the Tenancy Agreements are exempted from the reporting, annual review, announcement and the Independent Shareholders approval requirements under Chapter 14A of the Listing Rules. The total amount of rental and management fee paid to substantial shareholder of COMPLANT during the year was about HK$993,000.

## Connected Transactions and Continuing Connected Transactions *(Continued)*

### Continuing Connected Transactions *(Continued)*

All the Continuing Connected Transactions above have been reviewed by the Independent Non-Executive Directors of the Company who have confirmed that for the year ended 31st December 2012 the Continuing Connected Transactions have been entered into (i) in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms or on terms no less favourable to the Company than terms available to (or from) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditors of the Company to perform certain factual finding procedures in respect of the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported the factual findings on these procedures to the Board of Directors and confirmed that for the year ended 31st December 2012 the Continuing Connected Transactions (i) have received approval of the Board of Directors of the Company; (ii) are in accordance with the pricing policies of the Company, where applicable; (iii) have been entered into in accordance with the terms of the agreements governing the transactions; and (iv) have not exceeded the respective cap amounts for the year ended 31st December 2012 as set out above in respect of each of the Continuing Connected Transactions. A copy of the auditor's letter has been provided to The Stock Exchange of Hong Kong Limited.

## Directors' Interest in Contracts of Significance

No contracts of significance, to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Purchase, Sale or Redemption of the Company's Listed Securities

At no time during the year, did the Company nor any of its subsidiaries purchase, sell or redeem any of the Company's listed securities.

## Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December 2012.

## Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws in the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Emolument Policy

The Remuneration Committee reviews the Group emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating result, individual performance and comparable market statistics.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out as "Share Options" above.

# Directors' Report

## Corporate Governance

Details of corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

## Auditor

The consolidated financial statements for the years ended 31st December 2010 and 31st December 2011 were audited by HLM & Co. On 29th January 2013, the Company was informed that the accounting practice of HLM & Co. as partnership has been reorganized and taken over by HLM CPA Limited as limited company on 16th January 2013. Consequently, HLM & Co. has to resign as auditors of the Company and HLM CPA Limited will continue to serve as auditor of the Company both with effect from 16th January 2013. The consolidated financial statements for the year ended 31st December 2012 were audited by HLM CPA Limited who will retire and being eligible to be reappointed as auditor of the Company at the forthcoming annual general meeting.

On behalf of the Board
**Han Hong**
*Executive Director*

Hong Kong, 22nd March 2013

# Corporate Governance Report

The Board is pleased to present this Corporate Governance Report of the Group for the year ended 31st December 2012.

## Corporate Governance Practices

The Board acknowledges the importance of the highest standards of corporate governance as the Board believes that effective corporate governance practices are fundamental to enhancing the shareholders value and safeguarding interest of the shareholders. Accordingly, the Company has adopted sound corporate governance principles that emphasis an effective internal control and accountability to all shareholders.

The Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (the "CG Code") during the year under review, save for the deviation from code provisions A.2.1, A.4.1, A.6.7 and E.1.2 which are explained below.

### (a) Code Provision A.2.1

Under the code provision A.2.1, the roles of chairman and chief executive officer (the "CEO") should be separate people and should not be performed by the same individual. The divisions of responsibilities between the chairman and CEO should be clearly established and set out in writing. Currently, the office of CEO/managing Director is vacant. The roles and functions of the CEO/managing Director have been presently performed by the Board and the balance of authority between the Board and the management has not been impaired as a clear division of responsibilities are in place for the running of the business of the Group. The Company remains structured to ensure appropriate segregation of duties so that power is not concentrated in any one individual.

### (b) Code Provision A.4.1

Under the code provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election. None of the existing independent non-executive Directors (the "INEDs") of the Company is appointed for a specific term. This constitutes a deviation from the code provision A.4.1 during the year. However, one-third of the Directors (including executive and non-executive) are subject to retirement by rotation at each annual general meeting under the Company's articles of association (the "Articles"). As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

### (c) Code Provision A.6.7

Under the new code provision A.6.7, independent non-executive Directors and other non-executive Directors, as equal Board members, should give the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and development a balanced understanding of the views of shareholders. Due to other business commitment, Dr. Zheng Liu, Mr. Yu Chi Jui and Ms. Li Xiao Wei, INEDs of the Company, did not attend the annual general meeting that held on 1st June 2012 and the extraordinary general meetings that held on 15th August 2012 and 31st December 2012, which constitutes a deviation from the code provision A.6.7 during the year.

# Corporate Governance Report

## Corporate Governance Practices *(Continued)*

### (d) Code Provision E.1.2

Under the code provision E.1.2, the chairman of the Board should attend the annual general meeting. The chairman of the independent Board committee should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders approval. As at the date of annual general meeting dated 1st June 2012, the vacancy of the chairman of the Board is not yet filled. Due to other business engagements, Dr. Zheng Liu, the chairman of the independent Board committee, did not attend the extraordinary general meetings held on 10th January 2012, 15th August 2012 and 31st December 2012 for approving the connected transactions, which constitutes a deviation from the code provision E.1.2 during the year.

## Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, all Directors declared that they have complied with the Model Code for the year ended 31st December 2012.

## The Board of Directors

### (a) Responsibilities

The Board is responsible for determining the overall strategy and corporate development and ensuring the business operations are properly monitored. The Board reserves the right to decide all policy matters of the Group and material transactions. The Board delegates the day-to-day operations to general managers and department heads who are responsible for different aspects of the operations of the Group. The Directors are continually updated with the regulatory requirements, business activities and development of the Group to facilitate the discharge of their responsibilities. The management has the obligation to supply the Board and the various Committees with adequate information in a timely manner to enable the members to make informed decisions. Each Director has separate and independent access to the Group's management to acquire more information than is volunteered by management and to make further enquiries if necessary. There are established procedures for Directors to seek independent professional advices for them to discharge their duties and responsibilities, where appropriate at the Company's expenses. Directors and Officers Liability Insurance is in place to protect the Directors and officers against their potential legal liabilities arising out of corporate activities.

### (b) Composition

The Board currently comprises three executive Directors and three independent non-executive Directors from different business and professional fields. The Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business and professional expertise, experiences and independent judgment to the Board for its efficient and effective delivery of the Board function.

## The Board of Directors *(Continued)*

### (b) Composition *(Continued)*

*Composition of the Board and its changes during the year ended 31st December 2012 and up to date of this annual report is as follows:*

**Executive Directors**

Mr. Tang Jianguo (appointed on 21st December 2012)
Mr. Han Hong
Mr. Hu Yebi
Mr. Xiao Longlong (resigned on 21st December 2012)

**Independent Non-Executive Directors**

Dr. Zheng Liu
Mr. Yu Chi Jui
Ms. Li Xiao Wei

Mr. Tang Jianguo is the Chairman of the Board and the position of CEO/Managing Director of the Company is vacant.

The profiles of each Director are set out in the "Profile of Directors and Senior Management" section on page 8 to 9.

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

### (c) Appointment of Directors and Re-election of Directors

On 21st December 2012, Mr. Tang Jianguo was appointed as an executive Director and chairman of the Board and the addition to the Board is subject to re-election at conclusion of the 2013 Annual General Meeting ("2013 AGM").

According to the Company's articles of association, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years. The Directors to retire every year shall be those appointed by the Board during the year and those who have been longest in office since their last re-election. Any new Director appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting of the Company after appointment. There are three Directors (Mr. Tang Jianguo, Mr. Hu Yebi and Ms. Li Xiao Wei) subject to re-election at conclusion of the 2013 AGM. Pursuant to the Company's articles of association, they are all eligible for re-appointment.

# Corporate Governance Report

## The Board of Directors *(Continued)*

### (d) Induction for Directors

Each newly appointed Director will receive comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has proper understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Induction programme was held for Mr. Tang Jinguo who joined the Board in December 2012.

### (e) Directors Continuous Training and Development

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant.

The Directors are committed to complying with the CG Code A.6.5 which came into effect on 1st April 2012 on Directors training. All Directors have participated in continuous professional development by studying written materials relevant to Director's duties and responsibilities.

### (f) Board Meetings and Shareholders Meetings Attended

The Board held five meetings. The individual attendance record of Directors is as follows:

| Name of Director | Attendance at Board meetings |
|---|---|
| **Executive Directors** | |
| Mr. Tang Jianguo (appointed on 21st December 2012) | 0/5 |
| Mr. Han Hong | 5/5 |
| Mr. Hu Yebi | 5/5 |
| Mr. Xiao Longlong (resigned on 21st December 2012) | 4/5 |
| **Independent Non-Executive Directors** | |
| Dr. Zheng Liu | 5/5 |
| Mr. Yu Chi Jui | 5/5 |
| Ms. Li Xiao Wei | 5/5 |

The Company held an annual general meeting and three extraordinary general meetings during the year ended 31st December 2012. All the Directors have zero attendance at the four general meetings.

## Independence of Non-executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent parties. Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence.

## Board Committees

The Company has established the Nomination Committee in February 2012 and maintained the Audit Committee and Remuneration Committee throughout the year to oversee particular aspects of the Group's affairs. Each of these committees has specific written terms of reference, which deal clearly with their authorities and duties. The chairmen of the committees will report the findings and recommendations of the committees to the Board after each meeting. The minutes of all meetings of the committees are circulated to the Board for information.

### (a) Nomination Committee

The Nomination Committee was established by the Company in February 2012. As at the date of this report, the Nomination Committee comprises three independent non-executive Directors of the Company, Dr. Zheng Liu, Mr. Yu Chi Jui and Ms. Li Xiao Wei. Dr. Zheng Liu is the chairman of the Nomination Committee.

The primary function of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes. The terms of reference of the Nomination Committee are available on the website of The Stock Exchange of Hong Kong ("HKSE") and the Company's website. During the financial year ended 31st December 2012, the Nomination Committee held two meetings. The attendance of each member is set out as follows:

| Name of Member | Number of attendance |
|---|---|
| Dr. Zheng Liu | 2/2 |
| Mr. Yu Chi Jui | 2/2 |
| Ms. Li Xiao Wei | 2/2 |

The chairman of the Nomination Committee will report the findings and recommendations of the Nomination Committee to the Board after each meeting. The minutes of all meetings of Nomination Committee are circulated to the Board for information.

The following was a summary of the work performed by the Nomination Committee in 2012:

1. endorsed the terms of reference of the Nomination Committee.

2. reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board. The Nomination Committee concluded that the Board possesses of a diversity of skills, expertise, experience and qualifications and believed that the Board performs its duties competently.

3. assessed the independence of all the independent non-executive Directors and reviewed the independent non-executive Directors confirmations on their independence.

4. nominated Mr. Han Hong and Mr. Yu Chi Jui for the Board's recommendations to stand for election at the 2012 annual general meeting of the Company and reviewed the relevant sections in the circular to the shareholders of the Company.

5. nominated Mr. Tang Jianguo as executive Director and chairman of the Board.

# Corporate Governance Report

## Board Committees *(Continued)*

### (b) Remuneration Committee

A Remuneration Committee was established by the Company in 2005. As at the date of this report, the Remuneration Committee comprises three independent non-executive Directors of the Company, Dr. Zheng Liu, Mr. Yu Chi Jui and Ms. Li Xiao Wei. Dr. Zheng Liu is the chairman of the Remuneration Committee.

The primary function of the Remuneration Committee is to make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management. The terms of reference of the Remuneration Committee are available on the website of the HKSE and the Company's website.

During the financial year ended 31st December 2012, the Remuneration Committee held one meeting. The attendance of each member is set out as follows:

| Name of Member | Number of attendance |
|---|---|
| Dr. Zheng Liu | 1/1 |
| Mr. Yu Chi Jui | 1/1 |
| Ms. Li Xiao Wei | 1/1 |

The chairman of the Remuneration Committee will report the findings and recommendations of the Remuneration Committee to the Board after each meeting. The minutes of all meetings of Remuneration Committee are circulated to the Board for information.

The following was a summary of the work performed by the Remuneration Committee in 2012:

1. reviewed the Group's emolument policy and structure for the remuneration of Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistics.

2. assessed the performance of the executive Directors and considered the remuneration package of executive Directors by reference to the prevailing packages with companies listed on the main Board of the HKSE.

3. reviewed the relevant disclosures made in the Directors Report of the Annual Report.

4. endorsed the revised terms of reference of the Remuneration Committee.

Details of the remuneration of each of the Directors of the Company are set out in note 11 to the financial statement. Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31st December 2012 is set out below:

| | Number of individuals |
|---|---|
| Nil to HK$1,000,000 | 1 |

## Board Committees *(Continued)*

### (c) Audit Committee

An Audit Committee was established by the Company in 1998. As at the date of this report, the Audit Committee comprises three independent non-executive Directors of the Company, Dr. Zheng Liu, Mr. Yu Chi Jui and Ms. Li Xiao Wei, one of whom possess recognised professional qualifications in accounting and have wide experience in auditing and accounting. Dr. Zheng Liu is the chairman of the Audit Committee.

The primary function of the Audit Committee is to review and supervise the Group's financial reporting process and internal controls. The terms of reference of the Audit Committee are available on the website of the HKSE and the Company's website.

During the financial year ended 31st December 2012, the Audit Committee held two meetings. The attendance of each member is set out as follows:

| Name of Member | Number of attendance |
|---|---|
| Dr. Zheng Liu | 2/2 |
| Mr. Yu Chi Jui | 2/2 |
| Ms. Li Xiao Wei | 2/2 |

The chairman of the Audit Committee will report the findings and recommendations of the Audit Committee to the Board after each meeting. The minutes of all meetings of Audit Committee are circulated to the Board for information.

The following was a summary of the work performed by the Audit Committee in 2012:

1. reviewed the Group's consolidated financial statements for the year ended 31st December 2011 and the annual results announcement with a recommendation to the Board for approval.

2. reviewed the Group's consolidated financial statements for the six months period ended 30th June 2012 and the interim results announcement with a recommendation to the Board for approval.

3 reviewed the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

4. held meetings with external auditor.

5. made recommendation on the appointment or re-appointment of the external auditor.

6. endorsed the revised terms of reference of the Audit Committee.

At the Audit Committee meeting on 19th March 2013, the Audit Committee reviewed the Group's consolidated financial statements for the year ended 31st December 2012 and the annual results announcement with a recommendation to the Board for approval.

# Corporate Governance Report

## Directors Responsibility for the Financial Statements

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility to prepare the consolidated financial statements that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, the Board has prepared the consolidated financial statements on a going concern basis.

The responsibility of the external auditor, HLM CPA Limited, is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion solely to the shareholders of Company, as a body, and for no other purpose.

The Company has announced its annual and interim results in a timely manner within approximately three months and two months, respectively, after the end of the relevant period in order to enhance high level of corporate transparency.

## Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders investments and the Group's assets and, with the support of the Audit Committee, for reviewing the effectiveness of such system. The management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company. No material deficiencies have been identified so far.

## Auditor's Remuneration

For the financial year ended 31st December 2012, the fee paid/payable to the Group's auditor, HLM CPA Limited, is set out as follows:

| **Services rendered** | **Fee paid/payable**<br>HK$'000 |
|---|---|
| Audit services | |
| – fee for 2012 annual report | 380 |
| – fee and disbursement for shareholders' circular dated 11th December 2012 | 1,100 |
| Non-audit services | – |
| Total | 1,480 |

## Company Secretary

All Directors have access to the advice and services of the company secretary, Mr. Wan Hok Shing. The company secretary reports to the Chairman on Board governance matters, and is responsible for ensuring that Board procedures are followed, and for facilitating communications among Directors as well as with shareholders and management.

The company secretary's biography is set out in the Board of Directors and senior management section of this Annual Report. In compliance with Rule 3.29 of the Listing Rules, Mr. Wan Hok Shing has undertaken no less than 15 hours of relevant professional training during the year ended 31st December 2012.

## Shareholders Rights

### (a) Convening an Extraordinary General Meeting

Pursuant to article 72 of Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times has the right, by written requisition specifying the objects of the meeting and signed by the requisitionists to the Company's principal place of business in Hong Kong at Unit 2513A, 113 Argyle Street, Mongkok, Kowloon, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

### (b) Putting Forward Proposals at General Meeting

There are no provisions under the Company's articles of association regarding procedures for shareholders to put forward proposals at general meetings other than a proposal of a person for election as Director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

### (c) Procedures for Directing Shareholders Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary at the Company's principal place of business in Hong Kong at Unit 2513A, 113 Argyle Street, Mongkok, Kowloon, Hong Kong.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

## Communication With Shareholders

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual general meeting of the Company provides a forum for shareholders to exchange views directly with the Board. The Company regards the annual general meeting of the Company as an important event and all Directors, management and external auditors make an effort to attend the annual general meeting of the Company to address shareholders queries. All the shareholders of the Company are given a minimum of 20 clear business days notice of the date and venue of the annual general meeting of the Company. The Company supports the code's principle to encourage shareholders participation. The Company has also complied with the requirements concerning voting by poll under the Listing Rules. Details of the poll voting procedures and the rights of shareholders to demand a poll are included in circulars to shareholders of the Company dispatched by the Company where applicable.

## Investor Relations

### Constitutional Documents

During the year under review, there were no changes made in the Company's constitutional documents.

# Independent Auditor's Report

恒健會計師行有限公司
**HLM CPA LIMITED**
Certified Public Accountants

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E-mail 電郵: hlm@hlm.com.hk

**TO THE MEMBERS OF HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Hua Lien International (Holding) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 71, which comprise the consolidated statement of financial position as at 31st December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

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

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

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

## Opinion

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

**HLM CPA Limited**
*Certified Public Accountants*
**Ho Pak Tat**
*Practising Certificate Number: P05215*
Hong Kong

22nd March 2013

# Consolidated Statement of Comprehensive Income

For the year ended 31st December 2012

| | Notes | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|---|
| Turnover | 7 | **206,182** | 195,052 |
| Cost of sales | | **(107,758)** | (103,294) |
| Gross profit | | **98,424** | 91,758 |
| Other operating income | | **1,086** | 448 |
| Administrative expenses | | **(39,563)** | (31,415) |
| Other expenses | 8 | **(21,150)** | (21,150) |
| Profit from operations | | **38,797** | 39,641 |
| Finance costs | 9 | **(48,295)** | (44,510) |
| Loss before tax | | **(9,498)** | (4,869) |
| Income tax expense | 13 | **–** | – |
| Loss and total comprehensive expense for the year | 10 | **(9,498)** | (4,869) |
| (Loss) profit attributable to: | | | |
| Owners of the Company | | **(9,524)** | (4,875) |
| Non-controlling interests | | **26** | 6 |
| | | **(9,498)** | (4,869) |
| Total comprehensive (expense) income attributable to: | | | |
| Owners of the Company | | **(9,524)** | (4,875) |
| Non-controlling interests | | **26** | 6 |
| | | **(9,498)** | (4,869) |
| **Loss per share** | 15 | | |
| – Basic (cents per share) | | **(0.58)** | (0.37) |
| – Diluted (cents per share) | | **(0.58)** | (0.37) |

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

# Consolidated Statement of Financial Position

At 31st December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 16 | **273** | 195 |
| Goodwill | 17 | **226,511** | 226,511 |
| Intangible asset | 18 | **341,925** | 363,075 |
| | | **568,709** | 589,781 |
| Current assets | | | |
| Trade and other receivables | 19 | **220,406** | 250,195 |
| Bank balances and cash | 20 | **876,908** | 373,710 |
| | | **1,097,314** | 623,905 |
| Current liabilities | | | |
| Trade and other payables | 21 | **36,665** | 103,125 |
| Net current assets | | **1,060,649** | 520,780 |
| Total assets less current liabilities | | **1,629,358** | 1,110,561 |
| Non-current liability | | | |
| Convertible notes | 22 | **585,559** | 537,264 |
| Net assets | | **1,043,799** | 573,297 |
| Capital and reserves | | | |
| Share capital | 23 | **219,118** | 139,118 |
| Reserves | | **824,649** | 434,173 |
| Equity attributable to owners of the Company | | **1,043,767** | 573,291 |
| Non-controlling interests | 24 | **32** | 6 |
| Total equity | | **1,043,799** | 573,297 |

The consolidated financial statements on pages 28 to 71 were approved and authorised for issue by the Board of Directors on 22nd March 2013 and are signed on its behalf by:

**Tang Jianguo**
*DIRECTOR*

**Han Hong**
*DIRECTOR*

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

# Consolidated Statement of Changes in Equity

For the year ended 31st December 2012

| | Share capital HK$'000 | Share premium HK$'000 | Warrant reserve HK$'000 | Convertible notes equity reserve HK$'000 | Accumulated losses HK$'000 | Attributable to owners of the Company HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1st January 2011 | 124,868 | 232,604 | 4,942 | 230,845 | (101,720) | 491,539 | – | 491,539 |
| Loss for the year | – | – | – | – | (4,875) | (4,875) | 6 | (4,869) |
| Other comprehensive expense | – | – | – | – | – | – | – | – |
| Total comprehensive (expense) income for the year | – | – | – | – | (4,875) | (4,875) | 6 | (4,869) |
| Issue of shares on exercise of convertible notes | 5,250 | 30,788 | – | (11,048) | – | 24,990 | – | 24,990 |
| Transfer on lapse of warrants | – | – | (4,942) | – | 4,942 | – | – | – |
| Recognition of the equity component of convertible notes | – | – | – | 7,637 | – | 7,637 | – | 7,637 |
| Issue of new shares | 9,000 | 45,000 | – | – | – | 54,000 | – | 54,000 |
| At 31st December 2011 and 1st January 2012 | 139,118 | 308,392 | – | 227,434 | (101,653) | 573,291 | 6 | 573,297 |
| Loss for the year | – | – | – | – | (9,524) | (9,524) | 26 | (9,498) |
| Other comprehensive expense | – | – | – | – | – | – | – | – |
| Total comprehensive (expense) income for the year | – | – | – | – | (9,524) | (9,524) | 26 | (9,498) |
| Issue of new shares | 80,000 | 400,000 | – | – | – | 480,000 | – | 480,000 |
| At 31st December 2012 | 219,118 | 708,392 | – | 227,434 | (111,177) | 1,043,767 | 32 | 1,043,799 |

# Consolidated Statement of Cash Flows

For the year ended 31st December 2012

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Loss for the year | (9,498) | (4,869) |
| Adjustments for: | | |
| Depreciation and amortisation of property, plant and equipment | 167 | 148 |
| Amortisation of intangible asset | 21,150 | 21,150 |
| Interest income | (1,086) | (448) |
| Interest expense | 48,295 | 44,510 |
| Operating cash flows before movements in working capital | 59,028 | 60,491 |
| Decrease/(increase) in trade and other receivables | 29,789 | (66,077) |
| Decrease in trade and other payables | (66,460) | (5,247) |
| NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES | 22,357 | (10,833) |
| INVESTING ACTIVITIES | | |
| Payments for property, plant and equipment | (245) | (46) |
| Interest received | 1,086 | 448 |
| NET CASH GENERATED FROM INVESTING ACTIVITIES | 841 | 402 |
| FINANCING ACTIVITIES | | |
| Proceeds from issue of new shares | 480,000 | 54,000 |
| Proceeds from issue of convertible notes | – | 24,000 |
| NET CASH GENERATED FROM FINANCING ACTIVITIES | 480,000 | 78,000 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 503,198 | 67,569 |
| CASH AND CASH EQUIVALENTS AT 1st JANUARY | 373,710 | 306,141 |
| CASH AND CASH EQUIVALENTS AT 31st DECEMBER | 876,908 | 373,710 |
| CASH AND CASH EQUIVALENTS REPRESENT | | |
| Bank balances and cash | 876,908 | 373,710 |

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 1. General

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate holding Company is China National Complete Plant Import & Export Corporation (Group) and its ultimate parent Company is State Development & Investment Corp. (SDIC), both are state-owned corporation registered in People's Republic of China. Its registered office is at P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal place of business in Hong Kong is at Unit 2513A, 25th Floor, 113 Argyle Street, Mongkok, Kowloon, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 30.

The consolidated financial statements are presented in Hong Kong dollars, which is considered as the functional currency of the Company.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations (the "new and revised HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1st January 2012.

| | |
|---|---|
| Amendments to HKFRS 1 | Severe hyperinflation and removal of fixed dates for first-time adopters |
| Amendments to HKFRS 7 | Disclosures – Transfers of financial assets |
| Amendments to HKAS 12 | Deferred tax: Recovery of underlying assets |

The application of the new and revised HKFRSs in the current year has no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### New and Revised HKFRSs in Issue But Not Yet Effective

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

| | |
|---|---|
| Amendments to HKFRSs | Annual improvements to HKFRSs 2009 – 2011 cycle except for the amendment HKAS 1[2] |
| Amendments to HKFRS 1 | Government loans[2] |
| Amendments to HKFRS 7 | Disclosures – Offsetting financial assets and financial liabilities[2] |
| Amendments to HKFRS 7 and HKFRS 9 | Mandatory effective date of HKFRS 9 and transition disclosures[4] |
| HKFRS 9 | Financial instruments[4] |
| HKFRS 10 | Consolidated financial statements[2] |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated financial statements, joint arrangements and disclosure of interests in other entities – Transition Guidance[2] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment entities[3] |
| HKFRS 11 | Joint arrangements[2] |
| HKFRS 12 | Disclosures of interests in other entities[2] |
| HKFRS 13 | Fair value measurement[2] |
| Amendments to HKAS 1 | Presentation of items of other comprehensive income[1] |
| HKAS 19 (as revised in 2011) | Employee benefits[2] |
| HKAS 27 (as revised in 2011) | Separate financial statements[2] |
| HKAS 28 (as revised in 2011) | Investments in associates and joint ventures[2] |
| Amendments to HKAS 32 | Offsetting financial assets and financial liabilities[3] |
| HK(IFRIC) – INT 20 | Stripping costs in the production phase of a surface mine[2] |

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

#### *Annual Improvements to HKFRSs 2009 – 2011 Cycle*

The Annual Improvements to HKFRSs 2009 – 2011 cycle include a number of amendments to various HKFRSs, The amendments are effective for annual periods beginning on or after 1st January 2013. Amendments to HKFRSs include:

- amendments to HKAS 16 Property, plant and equipment; and
- amendments to HKAS 32 Financial instruments: presentation.

The amendments to HKAS 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 HKAS 16 and as inventory, otherwise.

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### New and Revised HKFRSs in Issue But Not Yet Effective *(Continued)*

*Annual Improvements to HKFRSs 2009 – 2011 Cycle (Continued)*

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income taxes.

### HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. The amendments made in 2010 include the requirements for the classification and measurement of financial liabilities and for derecognition.

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

### New and Revised Standards on Consolidation, Joint Arrangements, Associates and Disclosures

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

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC) — Int 12 Consolidation — Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

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

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

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1st January 2013 with earlier application is permitted provided that all of these standards are applied at the same time.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### New and Revised HKFRSs in Issue But Not Yet Effective *(Continued)*

### HKFRS 13 Fair Value Measurement

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

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

### Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

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

The amendments to HKAS 1 are effective for annual periods beginning on or after 1st 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 directors of the Company anticipate that the application of these new and revised HKFRSs will have no material impact on the consolidated financial statements.

## 3. Significant Accounting Policies

The consolidated financial statements have been prepared under the historical cost convention and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 3. Significant Accounting Policies *(Continued)*

The principal accounting policies adopted are as follows:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

*Allocation of Total Comprehensive Income to Non-controlling Interests*

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1st January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

### 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 former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

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

- deferred tax assets or liabilities, assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- 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 HKFRS 2 Share-based Payment at the acquisition date; and

# 3. Significant Accounting Policies *(Continued)*

## Business Combinations *(Continued)*

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

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 assessment, the Group's interest in the fair value of the acquiree's identifiable net assets 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.

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 considered as part of the consideration transferred in a business combination. Change in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. 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 as of the acquisition date. Measurement period does not exceed one year from 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 HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 3. Significant Accounting Policies *(Continued)*

### Goodwill *(Continued)*

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purpose. 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. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. 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.

### Investments in Subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

### Turnover

Turnover represents the net amounts received and receivable for goods supplied to outside customers, less returns and discounts during the year.

### Revenue Recognition

Revenue from the sale of goods is recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

### 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.

### 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.

## 3. Significant Accounting Policies *(Continued)*

### 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 (see the accounting policies below); 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 foreign currency translation reserve (attributed to non-controlling interests as appropriate).

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 that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed 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 the foreign currency translation reserve.

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 3. Significant Accounting Policies *(Continued)*

### Borrowing Costs

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

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

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

### Related Parties

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

(1) has control or joint control over the group;

(2) has significant influence over the group; or

(3) is a member of the key management personnel of the group or the group's parent.

(ii) An entity is related to the group if any of the following conditions applies:

(1) 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).

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

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

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

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

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

(7) A person identified in (i)(1) 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 members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## 3. Significant Accounting Policies *(Continued)*

### Retirement Benefit Costs

Payments to state managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF Scheme") are charged as expenses when they fall due.

### Share-based Payment Transactions

*Share Options Granted to Employees in an Equity-settled Share-based Payment Transaction*

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revised its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to a share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

### Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position 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 difference 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 3. Significant Accounting Policies *(Continued)*

### Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary difference 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 the 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 is realised, based on tax rate (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.

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.

### Property, Plant and Equipment

Property, plant and equipment including furniture and equipment held for use in the supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost or fair value at the date of revaluation, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is charged so as to write off the cost of other items of property, plant and equipment over their estimated useful life, using the straight line method, at the following rates per annum:

| | |
|---|---|
| Furniture and equipment | 20%-25% |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

## 3. Significant Accounting Policies *(Continued)*

### Intangible Assets

Intangible assets acquired in a business combination and recognised separately from goodwill which consist of customer relationship are initially recognised at their fair value at the acquisition date.

The customer relationships deemed having definite useful lives and thus are carried at cost less accumulated amortisation and impairment losses. 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 or a prospective basis. Amortisation for customer relationship is recognised on a straight-line basis over their estimated useful lives.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### Financial Instruments

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 3. Significant Accounting Policies *(Continued)*

### Financial Instruments *(Continued)*

*(1) Financial Assets*

The Group's financial assets include loans and receivables.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

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

## 3. Significant Accounting Policies *(Continued)*

### Financial Instruments *(Continued)*

#### (1) *Financial Assets (Continued)*

Impairment of financial assets *(Continued)*

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually, 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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 the 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. Changes in the carrying amount of the allowance account are recognised in profit or loss. 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.

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 losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 3. Significant Accounting Policies *(Continued)*

### Financial Instruments *(Continued)*

*(2) Financial Liabilities and Equity Instruments*

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Convertible notes

Convertible notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. 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 debts. The amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguish upon conversion or at the instrument's maturity date.

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 the convertible notes equity reserve until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in the convertible notes equity reserve will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to 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 life of the convertible notes using the effective interest method.

## 3. Significant Accounting Policies *(Continued)*

### Financial Instruments *(Continued)*

#### *(2) Financial Liabilities and Equity Instruments (Continued)*

Other financial liabilities

Other financial liabilities including trade payables and others are subsequently measured at amortised cost, using the effective interest method.

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 on 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.

#### *(3) Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the Group has transferred 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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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.

### Cash and Cash Equivalents

Cash and cash equivalents represent cash at bank and on hand, time deposits with banks and other financial institutions, and short-term liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition.

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainity

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

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

### Critical Judgements in Applying Accounting Policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

*(a) Depreciation*

The Group depreciates the property, plant and equipment over their estimated useful life and after taking into account of their estimated residual values, using the straight line method. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

*(b) Estimated Impairment of Trade Receivables*

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

*(c) Impairment of 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 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.

## 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainity *(Continued)*

### Critical Judgements in Applying Accounting Policies *(Continued)*

*(d) Impairment of Intangible Assets*

The management of the Group reviews its intangible assets at the end of each reporting period for any indication that the intangible assets may be impaired if its carrying amount may be in excess of the greater of its net selling price and its value in use. The value in use means the discounted present value of the future cash flows expected to arise from the continuing use of the intangible assets and from its disposal at the end of its useful life.

## 5. Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt.

During 2012, the Group's strategy remained unchanged. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equities.

The Management considers the gearing ratio at the end of each reporting period was as follows:

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Total borrowings | **585,559** | 537,264 |
| Total equity | **1,043,799** | 573,297 |
| Total debt to total equity ratio | **56.10%** | 93.72% |

The decrease in ratio was mainly due to increase in net equity as a result of issue of 800,000,000 at HK$0.6 each on 3rd September 2012.

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 6. Financial Instruments

### 6a. The Carrying Amounts of Each of The Categories of Financial Instruments

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Trade and other receivables | **220,406** | 250,195 |
| Bank balances and cash | **876,908** | 373,710 |
| | **1,097,314** | 623,905 |
| **Financial liabilities** | | |
| Trade and other payables | **36,665** | 103,125 |
| Convertible notes | **585,559** | 537,264 |
| | **622,224** | 640,389 |

### 6b. Financial Risk Management Objectives and Policies

The Group's major financial instruments include trade and other receivables, bank balances, trade and other payables and convertible notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Credit Risk*

Credit risk arises from the failure of a customer or counterparty to meet its settlement obligations. The credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Concentration of credit risk is managed by customer/counterparty, by geographical region and by industry sector. Credit risk arising therefore is assessed on individual basis. There is an average credit period of 365 days for both external customers and related parties. It arises principally from trading and other activities undertaken by the Group. The Group has concentration of credit risk on certain individual customers. In order to minimise the credit risk, the management of the Group has procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

# 6. Financial Instruments *(Continued)*

## 6b. Financial Risk Management Objectives and Policies *(Continued)*

*Liquidity Risk*

With regard to 2012 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash flow from operations to meet its debt obligations as they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The maturity profile of the Group's financial liabilities as at 31st December 2012 and 2011 are as follows:

| | **Weighted average effective interest rate %** | **Less than 1 year HK$'000** | **1-2 years HK$'000** | **2-5 years HK$'000** | **More than 5 years HK$'000** | **Carrying amount at 31.12.2012 HK$'000** |
|---|---|---|---|---|---|---|
| **2012** | | | | | | |
| Trade and other payables | **N/A** | **36,665** | **–** | **–** | **–** | **36,665** |
| Convertible notes | **9.0%** | **–** | **567,410** | **18,149** | **–** | **585,559** |
| | | **36,665** | **567,410** | **18,149** | **–** | **622,224** |

| | Weighted average effective interest rate % | Less than 1 year HK$'000 | 1-2 years HK$'000 | 2-5 years HK$'000 | More than 5 years HK$'000 | Carrying amount at 31.12.2011 HK$'000 |
|---|---|---|---|---|---|---|
| 2011 | | | | | | |
| Trade and other payables | N/A | 103,125 | – | – | – | 103,125 |
| Convertible notes | 8.6% | – | – | 537,264 | – | 537,264 |
| | | 103,125 | – | 537,264 | – | 640,389 |

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 6. Financial Instruments *(Continued)*

### 6b. Financial Risk Management Objectives and Policies *(Continued)*

*Interest Rate Risk*

The Group's bank balances carry floating-rate of interests and have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates. The Group currently does not have any interest rate hedging policy in relation to interest rate risks. However, the directors monitor the Group's exposure on an ongoing basis and will consider hedging interest rate risks should the needs arise.

Sensitivity analysis

As at 31st December 2012 and 2011, if interest rate on borrowing has been 5% higher/lower with all other variable held constant, loss for the current year and loss for the prior year would decrease/increase by approximately HK$2,415,000 (2011: decrease/increase by approximately HK$2,226,000).

*Other Price Risk*

The Group is not exposed to any equity securities risk or commodity price risk.

*Currency Risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD in current year. Since HKD is pegged to USD, the Group does not expect any significant movements in USD/HKD exchange rate. The exposure to fluctuations in exchange rate of HKD is considered to be insignificant.

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Financial assets denominated in foreign currencies | **379,343** | 406,516 |
| Financial liabilities denominated in foreign currencies | **15,131** | 84,346 |
| The financial assets were denominated in the following foreign currencies: | | |
| USD | **379,343** | 406,516 |
| The financial liabilities were denominated in the following foreign currencies: | | |
| USD | **15,131** | 84,346 |

# 6. Financial Instruments *(Continued)*

## 6b. Financial Risk Management Objectives and Policies *(Continued)*

*Currency Risk (Continued)*

Sensitivity analysis

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD exchange rate, with other variable held constant, of the Group net loss for the current year and prior year (due to the change in fair value of the monetary assets and liability).

| | Increase /decrease in foreign currency rate | Effect on loss before taxation | |
|---|---|---|---|
| | | **2012** | 2011 |
| | | **HK$'000** | HK$'000 |
| USD | 5% | **18,211** | 16,109 |
| | -5% | **(18,211)** | (16,109) |

## 6c. Fair Value

### *(i) Financial Instruments Carried at Fair Value*

The carrying value of financial instruments measured at fair value at 31st December 2012 and 2011 across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 fair vales measurements are those derived from quoted price (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair values 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 price) or indirectly (i.e. derived from prices); and
- Level 3 fair values measurement are those derived from valuation techniques that include inputs for the asset and liability that are not based on observable market data (unobservable inputs).

At 31st December 2012 and 2011, the Group had no financial instruments carried at fair value all of which are based on the Level 1 for the fair value hierarchy.

During the year ended 31st December 2012 and 2011, there were no significant transfers between financial instruments in Level 1 and 2.

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 6. Financial Instruments *(Continued)*

### 6c. Fair Value *(Continued)*

#### *(ii) Fair Values of Financial Instruments Carried at Other Than Fair Value*

At 31st December 2012 and 2011, the Group had no financial instruments carried at cost or amortised cost all of which are based on the Level 3 for the fair value hierarchy.

#### *(iii) The Fair Values of Financial Assets and Financial Liabilities are Determined as Follows:*

- 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 using prices or rates from observable current market transactions as input.

## 7. Segment Information

The Group's operating activities are attributable to a single operating segment focusing on supporting services to sweetener and ethanol business for the year ended 31st December 2012 and 2011. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the Group's board of directors, the chief operating decision maker of the Group. The board of directors regularly reviews turnover analysis by products, including agricultural and industrial equipment and accessories, chemical materials, fertilizers, agricultural and industrial machinery, steel, motor vehicles, agricultural and industrial consumables and other products. However, other than turnover analysis, no operating results and other discrete financial information is available for the assessment of performance of the respective products as many of the sales orders are bundled with different products together and it will be inappropriate to assess the profit contribution on individual category basis and the board of directors reviews the turnover and the profit for the year of the Group as a whole to make decision about resources allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the board of directors. Accordingly, no segment information is presented.

### Entity-wide Information

An analysis of the Group's turnover by products is as follows:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Agricultural and industrial equipment and accessories | **97,649** | 72,066 |
| Fertilizers | **36,844** | 43,763 |
| Chemical materials | **25,541** | 22,594 |
| Agricultural and industrial machinery | **25,149** | 41,802 |
| Steel | **9,788** | 7,709 |
| Agricultural and industrial consumables | **3,794** | 3,856 |
| Motor vehicles | **3,427** | 1,704 |
| Others | **3,990** | 1,558 |
| | **206,182** | 195,052 |

## 7. Segment Information *(Continued)*

### Entity-wide Information *(Continued)*

All the Group's turnover are derived from four subsidiaries of COMPLANT International Sugar Industry Co. Ltd. ("COMPLANT") and each of these four customers accounts for more than 10% of the Group's turnover for the year ended 31st December 2012 and 2011. All of the Group's turnover for the year ended 31st December 2012 and 2011 is generated in three African countries and is determined by the location where products being delivered. The Group's non-current assets, other than those intangible assets, comprise of approximately HK$273,000 (2011: HK$195,000) which are located in the People's Republic of China.

## 8. Other Expenses

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Amortisation of intangible asset | **21,150** | 21,150 |

## 9. Finance Costs

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Effective interest expense on convertible notes wholly repayable within five years | **48,295** | 44,510 |

## 10. Loss For the Year

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Loss for the year has been arrived at after charging: | | |
| Directors' remunerations (note 11) | **1,792** | 1,819 |
| Retirement benefits scheme contributions | **3,062** | 2,534 |
| Other staff costs | **24,554** | 20,824 |
| Total employee benefits expenses | **29,408** | 25,177 |
| Depreciation of property, plant and equipment | **167** | 148 |
| Net foreign exchange loss | **509** | 211 |
| Auditor's remuneration | **380** | 380 |
| Cost of inventories recognised as an expenses | **107,758** | 103,294 |
| and after crediting: | | |
| Interest income | **1,086** | 448 |

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 11. Directors' Remunerations

The emoluments paid or payable to each of the seven (2011: seven) directors were as follows:

| | Fees HK$'000 | Basic salaries and allowances HK$'000 | Performance Bonus HK$'000 | Retirement benefits scheme contributions HK$'000 | **2012 Total emoluments HK$'000** | 2011 Total emoluments HK$'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Tang Jianguo (Note c) | – | – | – | – | **–** | – |
| Han Hong | – | 356 | 504 | 64 | **924** | 793 |
| Hu Yebi | 120 | – | – | – | **120** | 120 |
| Xiao Longlong (Note d) | – | 447 | 87 | 54 | **588** | 746 |
| **Independent Non-Executive Directors** | | | | | | |
| Zheng Liu | 100 | – | – | – | **100** | 100 |
| Yu Chi Jui | 30 | – | – | – | **30** | 30 |
| Li Xiao Wei | 30 | – | – | – | **30** | 30 |
| | 280 | 803 | 591 | 118 | **1,792** | 1,819 |

Notes:

a. In the two years ended 31st December 2012, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the two years.

b. The performance bonus is payable to employees of SATT, including Mr. Han Hong who is the director and deputy general manager of SATT and Mr. Xiao Longlong, who is the general manager of SATT, the amount payable in the two years ended 31st December 2012 tied to certain performance indicators of that company.

c. Appointed on 21st December 2012.

d. Resigned on 21st December 2012.

## 12. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, one (2011: two) was executive director of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining four (2011: three) individuals were as follows:

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Basic salaries and allowances | **1,814** | 1,289 |
| Performance bonus (Note 11(b)) | **1,490** | 821 |
| Retirement benefits scheme contributions | **142** | 126 |
| | **3,446** | 2,236 |

Their emoluments were within the following bands:

| | **2012 Number of employees** | 2011 Number of employees |
|---|---|---|
| Nil to HK$1,000,000 | **4** | 3 |
| HK$1,000,001 to HK$2,000,000 | **–** | – |
| | **4** | 3 |

## 13. Income Tax Expense

No provision for income tax expenses had been made as the Company and subsidiaries has no assessable profits in their jurisdictions for the two years ended 31st December 2012 and 2011 and no material unprovided deferred tax at the end of reporting period 2012 and 2011.

## 14. Dividend

The Directors do not recommend the payment of a dividend for the years ended 31st December 2012 and 2011.

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 15. Loss Per Share

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| **Loss** | | |
| Loss for the purpose of basic loss per share | **(9,524)** | (4,875) |
| Effect of dilutive potential ordinary share: | | |
| Interest on convertible notes | **–** | – |
| Loss for the purpose of diluted loss per share | **(9,524)** | (4,875) |

| **Number of Shares** | **2012** **'000** | 2011 '000 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic loss per share | **1,652,002** | 1,308,290 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible notes | **–** | – |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | **1,652,002** | 1,308,290 |

The diluted loss per share for the year ended 31st December 2012 and 31st December 2011 are the same as basic loss per share presented as there was no dilutive effect from the assumed exercise of conversion of the Company's outstanding convertible notes on the loss to owners of the Company.

## 16. Property, Plant and Equipment

| | Furniture and equipment HK$'000 |
|---|---|
| COST | |
| At 1st January 2011 | 445 |
| Additions | 46 |
| At 31st December 2011 | 491 |
| Additions | 245 |
| At 31st December 2012 | 736 |
| ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT | |
| At 1st January 2011 | 148 |
| Provided for the year | 148 |
| At 31st December 2011 | 296 |
| Provided for the year | 167 |
| At 31st December 2012 | 463 |
| NET BOOK VALUES | |
| At 31st December 2012 | 273 |
| At 31st December 2011 | 195 |

## 17. Goodwill

| | HK$'000 |
|---|---|
| Cost | |
| At 31st December 2011 and 31st December 2012 | 321,768 |
| Accumulated impairment losses | |
| At 31st December 2011 and 31st December 2012 | 95,257 |
| Carrying values | |
| At 31st December 2011 and 31st December 2012 | 226,511 |

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 17. Goodwill *(Continued)*

### Impairment testing for goodwill

The carrying amount of goodwill was attributable to acquisition of the SATT on February 2010. This Goodwill has been allocated for the impairment testing purpose the cash-generating unit (the "CGU") of supporting services to sweetener and ethanol business. The recoverable amount as at 31st December 2012 of this CGU has been assessed on basis of a valuation report from BMI Appraisals Limited, (the "BMIA"), an independent professional company appointed for this purpose. BMIA assessed the value in use basing on cash flow projections of this CGU from financial budget of five years. Cash flows beyond the five-year period are extrapolated using the estimated growth rates of 3% of this CGU and applied a discount factor of 17.01% (2011: 16.13%) per annum in the calculation. The directors determined that no write-down on carrying value of goodwill on supporting services to sweetener and ethanol business for the year ended 31st December 2012 is considered necessary (2011: Nil).

## 18. Intangible Asset

| **Customer relationship** | **HK$'000** |
|---|---|
| Cost: | |
| At 31st December 2011, 1st January 2012 and 31st December 2012 | 423,000 |
| Accumulated amortisation: | |
| Balance at 1st January 2011 | 38,775 |
| Charge for the year | 21,150 |
| Balance at 31st December 2011 and 1st January 2012 | 59,925 |
| Charge for the year | 21,150 |
| Balance at 31st December 2012 | 81,075 |
| At 31st December 2012 | 341,925 |
| At 31st December 2011 | 363,075 |

The intangible asset of customer relationship was purchased as part of a business combination of SATT on February 2010 and has a definite useful life which is amortised on straight-line basis over the estimated useful life of 20 years. The cost of customer relationship represents the present value of the future cash flow attributed to established customer base and other business relationships built up by SATT in African and other nations at the acquisition date. It is stated at the valuation made by BMIA at the acquisition date. Excess earnings method is adopted in the valuation of the customer relationship. The excess earnings are the amount of anticipated economic benefits that exceeds the required rates of return on the contributory assets, including the fixed assets, the working capital, the workforce assembled and intangible assets other than the subject asset, used to generate those anticipated economic benefits.

## 19. Trade and Other Receivables

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Trade receivables | **221,932** | 274,074 |
| Less: Allowance for doubtful debts | **25,000** | 25,000 |
| | **196,932** | 249,074 |
| Purchase deposits | **23,474** | 623 |
| Prepayments for expenses | **–** | 498 |
| | **220,406** | 250,195 |

Included in trade and other receivables are trade receivables, net of allowance for doubtful debts, of approximately HK$196,932,000 as at 31st December 2012 (2011: HK$249,074,000). The Group allows a credit period of 365 days for trade customers of supporting services of sweetener and ethanol business. The following is an aged analysis of trade receivables presented based on the invoice date at the end of reporting period, which approximated the turnover recognised dates.

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Not yet due | **196,932** | 192,290 |
| Overdue 1-90 days | **–** | 48,024 |
| Overdue 91-180 days | **–** | 4,275 |
| Overdue 181-365 days | **–** | 4,485 |
| Overdue > 365 days | **–** | – |
| | **196,932** | 249,074 |

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

### Movement in the allowance for doubtful debts

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Balance at beginning of the year | **25,000** | 25,000 |
| Allowance recognised in profit or loss | **–** | – |
| Balance at end of year | **25,000** | 25,000 |

## 20. Bank Balances and Cash

Bank balances carry interest at market rates which range from 0.11% to 1.20% (2011: 0.01% to 0.3%) per annum.

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 21. Trade and Other Payables

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Trade payables | **13,203** | 84,346 |
| Accrued expenses | **23,278** | 18,779 |
| Trade advanced receipts | **184** | – |
| | **36,665** | 103,125 |

Included in trade and other payables are trade payables of approximately HK$13,203,000 as at 31st December 2012 (2011: HK$84,346,000). The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Not yet due | **13,203** | 84,346 |
| Overdue 1 – 90 days | **–** | – |
| Overdue 91 – 180 days | **–** | – |
| Overdue 181 – 365 days | **–** | – |
| Overdue > 365 days | **–** | – |
| | **13,203** | 84,346 |

## 22. Convertible Notes

| | **2009-2014 Notes** HK$'000 | **2011-2016 Notes** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1st January 2011 | 501,381 | – | 501,381 |
| Proceeds from issue | – | 24,000 | 24,000 |
| Equity component | – | (7,637) | (7,637) |
| Liability component at date of issue | – | 16,363 | 16,363 |
| Converted during the year | (24,990) | – | (24,990) |
| Effective interest expenses | 44,064 | 446 | 44,510 |
| At 31st December 2011 and 1st January 2012 | 520,455 | 16,809 | 537,264 |
| Effective interest expenses | 46,955 | 1,340 | 48,295 |
| At 31st December 2012 | 567,410 | 18,149 | 585,559 |

## 22. Convertible Notes *(Continued)*

(i) On 27th February 2009, the Company issued two tranches of 5-year zero coupon convertible notes at par, due in February 2014 (the "2009-2014 Notes"), for an aggregate principal amount of HK$673,200,000, which is part of the consideration for the acquisition of SATT. The Notes are convertible, at the option of noteholders, into ordinary shares of HK$0.10 each of the Company at an initial conversion price HK$0.6 per share, subject to anti-dilutive adjustment, at any time from 27th February 2009 up to and including 26th February 2014. Up to 31st December 2012, a total principal amount of HK$46,500,000 notes were converted at the request of the noteholder and the principal amount of approximately HK$626,700,000 (2011: HK$626,700,000) remained outstanding.

The 2009-2014 Notes contain two components, a liability and an equity element. The liability component is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The equity element is presented in equity as "Convertible notes equity reserve". During the year ended 31st December, 2012, the effective interest rate of the liability component is 9.0219% (2011: 9.0219%). At 31st December 2012 the liability component of 2009-2014 Notes with a carrying amount of approximately HK$567,410,000 (2011: HK$520,455,000).

(ii) On 26th August 2011, the Company issued a five-year zero coupon Hong Kong-dollar convertible notes at par, due in August 2016 for an aggregate principal amount of HK$24,000,000 to China-Africa Xin Xing Investment Limited, a wholly owned subsidiary of CADFund (the "2011-2016 Notes"). The Notes are convertible, at the option of noteholders, into ordinary shares of HK$0.10 each of the Company at an initial conversion price HK$0.6 per share, at any time from 26th August 2011 up to and including 26th August 2016. No conversion was made since its issue.

The 2011-2016 Notes contain two components, a liability and an equity element. The liability component at date of issue is approximately HK$16,363,000 and is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The equity element is presented in equity as "Convertible notes equity reserve". During the year ended 31st December 2012, the effective interest rate of the liability component is 7.959% (2011: 7.959%). At 31st December 2012, the liability component of 2011-2016 Notes with a carrying amount of HK$18,149,000 (2011: HK$16,809,000).

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 23. Share Capital

| | Notes | Number of Shares 2012 '000 | Number of Shares 2011 '000 | Share Capital 2012 HK$'000 | Share Capital 2011 HK$'000 |
|---|---|---|---|---|---|
| Ordinary share of HK$0.1 each | | | | | |
| **Authorised** | | | | | |
| At beginning and end of year | | **6,000,000** | 6,000,000 | **600,000** | 600,000 |
| **Issued and fully paid** | | | | | |
| At beginning of year | | **1,391,180** | 1,248,680 | **139,118** | 124,868 |
| Issue of shares on exercise of convertible notes | (i) | **–** | 52,500 | **–** | 5,250 |
| Issue of new shares | (ii) | **800,000** | 90,000 | **80,000** | 9,000 |
| At end of year | | **2,191,180** | 1,391,180 | **219,118** | 139,118 |

Notes:

(i) On 20th June 2011, the Company issued 52,500,000 shares on exercise of conversion rights under the convertible notes with a principal amount of HK$31,500,000.

(ii) On 26th August 2011, the Company issued 90,000,000 new shares to China-Africa Xin Xing Investment Limited, a wholly-owned subsidiary of CADFund at HK$0.6 per share for a total consideration of HK$54,000,000.

On 3rd September 2012, 800,000,000 Subscription Shares at the price of HK$0.60 per Subscription Share have been issued to China National Complete Plant Import & Export Corporation (Group) pursuant to the subscription agreement entered on 12th April 2012.

## 24. Non-controlling Interests

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Balance at beginning of year | **6** | – |
| Share of profit for the year | **26** | 6 |
| Balance at end of year | **32** | 6 |

## 25. Commitments

### a. Operating Lease Commitments:

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Lease payments paid during the year under operating leases in respect of office premises | **993** | 904 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Within one year | **993** | 975 |
| In the second to fifth year inclusive | **–** | 975 |
| Over five years | **–** | – |
| | **993** | 1,950 |

Operating lease payments principally represent rentals payable by the Group for certain of its office premises for both years.

### b. Capital Lease Commitments:

The Group did not have any significant capital lease commitments at the end of the reporting period.

## 26. Share Options Scheme

### 2007 Share Option Scheme

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2007 Share Option Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 20th September 2007. The details of the 2007 Share Option Scheme as pursuant to the Listing Rules, are set out in the Company's circular dated 3rd September 2007.

The purpose of the 2007 Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to the employees, directors, consultants and advisers of the Group and to promote the success of the Group. Qualifying participant of the 2007 Share Option Scheme means (a) any executive director, employee or proposed employee including full time or part time of any member of the Group (b) any non-executive director including independent non-executive directors of any member of the Group (c) any supplier of goods or services to any member of the Group (d) any customer of any member of the Group (e) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group (f) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group (g) any joint venture partner, business or strategic alliance partner of any member of the Group (h) any discretionary trust whose discretionary objects may be any of (a) to (g).

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 26. Share Options Scheme *(Continued)*

### 2007 Share Option Scheme *(Continued)*

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2007 Share Option Scheme (and under any other scheme of the Company) shall not in aggregate exceed 10 per cent. of the shares in issue as at the date of the adoption of the 2007 Share Option Scheme (the "Scheme Mandate Limit") provided that the Company may at any time as the Board of Directors of the Company think fit, seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of shares which may be issued upon exercise of all options to be granted under the 2007 Share Option Scheme (and under any other scheme of the Company) shall not exceed 10 per cent. of the shares in issue as at the date of approval by the shareholders of the Company in general meeting where such limit is refreshed. Options previously granted under any other scheme of the Company (including those outstanding, cancelled, and lapsed in accordance with the terms of the 2007 Share Option Scheme or any other scheme of the Company or exercised options under the said scheme) shall not be counted for the purpose of calculating the limit as refreshed. Notwithstanding aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2007 Share Option Scheme (and under any other scheme of the Company) shall not exceed 30 per cent. of the shares in issue from time to time. As at the date of the annual report, a total of 82,368,000 shares (representing approximately 10 per cent. of the existing issued share capital of the Company) are available for issue under the 2007 Share Option Scheme.

The total number of shares issued and to be issued upon exercise of the options granted to each individual under the 2007 Share Option Scheme and any other option scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the total number of shares in issue.

The period within which an option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised later than 10 years from the date on which the option is granted. Subject to the provisions of the 2007 Share Option Scheme, the Board may in its absolute discretion when offering the grant of an option impose any conditions in relation thereto in addition to those set forth in the 2007 Share Option Scheme as it may think fit (to be stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing) continuing eligibility criteria conditions and the satisfactory performance. However, the 2007 Share Option Scheme itself does not specify any minimum holding period for which an option must be held before it can be exercised.

The offer of a grant of share options may be accepted within 7 days from the date of the offer, upon payment of a nominal value of HK$1.00 in total by the grantee. The exercise period of the share options granted is determined by the Board of Directors, and shall not exceed a period of ten years after the date of grant.

The subscription price in respect of any particular option under the 2007 Share Option Scheme shall be such price as the Board may at its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a share; (b) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the Board resolution approving the grant of options; and (c) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the Board resolution approving the grant of options. The 2007 Share Option Scheme will expire on 19th September 2017. As at the end of reporting period, no share option has been granted under the 2007 Share Option Scheme since its adoption.

## 27. Retirement Benefits Schemes

The Group operates the MPF Scheme established under the Mandatory Provident Fund Ordinance for its qualifying employees. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees.

The PRC subsidiaries are required to contribute a certain percentage, ranging from 18% to 20%, of the payroll of their employees to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the respective schemes.

At the end of reporting period, there were no significant forfeited contributions available to reduce the contribution payable in the future years.

The total cost charged to the consolidated statement of comprehensive income of approximately HK$3.1 million (2011: approximately HK$2.5 million) represents contributions payable to these schemes by the Group in respect of the current accounting period.

## 28. Pledge of Assets

As at 31st December 2012 and 31st December 2011 River Right Limited (the "River Right", a wholly owned subsidiary of the Company) had pledged its interest in 65 shares in Zheng Da investments Limited (the "Zheng Da"), representing 65% of issued capital, as security for the five years zero coupon convertible notes of principal amount of HK$24,000,000 issued to China-Africa Xin Xing Investment Limited (the "CAXX", a wholly-owned subsidiary of China-Africa Development Fund "CADFund").

## 29. Related Party Transactions and Balances

During the year, the Group had certain transactions with related parties. Details of these transactions with these related parties are as follows:

### (a) Transactions With Related Parties

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Sales to four subsidiaries of COMPLANT International Sugar Industry Co., Ltd. (Note (i)) | **206,182** | 195,052 |
| Purchase from substantial shareholder of COMPLANT International Sugar Industry Co., Ltd. (Note (ii)) | **100,840** | 96,974 |
| Rental and building management fee paid to substantial shareholder of COMPLANT International Sugar Industry Co., Ltd. (Note (iii)) | **993** | 904 |

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 29. Related Party Transactions and Balances *(Continued)*

### (a) Transactions With Related Parties *(Continued)*

Notes:

(i) Pursuant to four supply and service agreements dated 5th December 2011, which were approved by independent shareholders of the Company on 10th January 2012, Sino-Africa Technology & Trading Limited (the "SATT"), a subsidiary of the Company, rendered supporting services to sweetener and ethanol business to four subsidiaries of COMPLANT International Sugar Industry Co., Ltd., a substantial shareholder of the Company.

(ii) Pursuant to an supply and service agreements dated 5th December 2011, which were approved by independent shareholders of the Company on 10th January 2012, SATT, a subsidiary of Company, receiving supporting services to sweetener and ethanol business from the substantial shareholder of COMPLANT International Sugar Industry Co., Ltd., a substantial shareholder of the Company.

(iii) The amount paid by SATT pursuant to tenancy agreements dated 5th December 2011 between SATT, a subsidiary of Company and the substantial shareholder of COMPLANT International Sugar Industry Co., Ltd., a substantial shareholder of the Company.

### (b) Amounts Due From and Due to Related Parties

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Amounts due from related parties (Note (i)) | **220,186** | 249,074 |
| Amounts due to related parties (Note (ii)) | **14,948** | 85,701 |

Notes

(i) The amounts due from related parties are included in 'trade and other receivables' and are trade in nature, interest free and unsecured.

(ii) The amounts due to related parties are included in 'trade and other payables' and are trade in nature, interest free and unsecured.

### (c) Key Management Personnel Compensation

Remuneration for key management personnel is as follows:

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Directors' fee | **280** | 280 |
| Basic salaries and allowances | **803** | 755 |
| Performance bonus | **591** | 670 |
| Retirement benefits scheme contributions | **118** | 114 |
| | **1,792** | 1,819 |

The remuneration of directors and key executives is reviewed a  by the Remuneration Committee having regard to the performance of individuals and market trends and is determined by the Board of Directors.

## 30. Subsidiaries

Details of the Company's material subsidiaries at 31st December 2012 are as follows:

| Name of company | Place of Incorporation/ operations | Nominal value of issued and fully paid share capital/ registered capital | Effective proportion of issued registered capital held by the Company | Principal activities |
|---|---|---|---|---|
| Jumbo Right Investments Limited | British Virgin Islands/ Hong Kong | Ordinary shares US$1 | 100% | Investment holding |
| Sino-Africa Technology & Trading Limited | British Virgin Islands | Ordinary shares US$3,000,000 | 100% | Provision of supporting services to sweetener business |
| Sino-Africa Technology & Trading (Hong Kong) Limited | Hong Kong | Ordinary share HK$1 | 100% | Investment holding |
| River Right Limited | British Virgin Islands/ Hong Kong | Ordinary share US$1 | 100% | Investment holding |
| Zheng Da Investments Limited | British Virgin Islands/ Hong Kong | Ordinary share US$100 | 65% | Investment holding |

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

## 31. Interests in Subsidiaries

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **–** | – |
| Amounts due from subsidiaries | **931,294** | 931,285 |
| | **931,294** | 931,285 |
| Impairment loss recognised | **(25,000)** | (25,000) |
| | **906,294** | 906,285 |

Details of the Company's subsidiaries at 31st December 2012 are set out in note 30.

In the opinion of the directors, the amounts due from subsidiaries are unsecured, non-interest bearing and are unlikely to be repayable within one year from the end of reporting period and are therefore shown in the statement of financial position as non-current. The carrying amount approximates their fair value.

# Notes to the Consolidated Financial Statements

For the year ended 31st December 2012

## 32. Contingent Liabilities

The Group had no significant contingent liabilities as at 31st December 2012.

## 33. Event After the Reporting Period

The joint venture agreement dated 3rd August 2012 entered into among the Company as purchaser, COMPLANT International Sugar Industry Co., Ltd ("COMPLANT") as vendor and Joyful Right Limited as joint venture company (the "JV Company"), pursuant to which (i) the Company has conditionally agreed to purchase and COMPLANT has conditionally agreed to sell the sale JV Company shares after the issue and allotment of the new JV Company shares to COMPLANT by the JV Company at par value, representing 70% of the equity interest in the JV Company after the issue and allotment of the new JV Company shares to COMPLANT, for the consideration of US$3,270,000 which will be satisfied by the payment in cash to COMPLANT; and (ii) the Company and COMPLANT have undertaken to contribute capital amounting to US$88,760,000 and US$38,040,000 respectively into the JV Group by way of share capital and/or shareholders' loan. The JV Group is principally engaged in the cultivation of sugar cane and the manufacturing and trading of sugar, molasses and related products. Further details of this transaction were set out in the Company's circular dated 11th December 2012. This transaction was approved by the extraordinary general meeting held on 31st December 2012 and the completion will take place in second quarter of 2013.

## 34. Comparative Figures

Certain comparative figures have been reclassified to conform to current year's presentation.

## 35. Information About The Statement of Financial Position of the Company

Information about the statement of financial position of the Company includes:

| | Notes | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|---|
| Non-current asset | | | |
| Interests in subsidiaries | 31 | **906,294** | 906,285 |
| Current assets | | | |
| Bank balances and cash | | **637,417** | 162,315 |
| Current liability | | | |
| Other payables | | **2,140** | 726 |
| Net current assets | | **635,277** | 161,589 |
| Total assets less current liability | | **1,541,571** | 1,067,874 |
| Non-current liability | | | |
| Convertible notes | | **585,559** | 537,264 |
| Net assets | | **956,012** | 530,610 |
| Capital and reserves | | | |
| Share capital | 23 | **219,118** | 139,118 |
| Reserves | | **736,894** | 391,492 |
| Total equity | | **956,012** | 530,610 |

# Five Years Financial Summary

| | Year ended 31st December | | | | |
|---|---|---|---|---|---|
| | 2008* HK$'000 | 2009 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | **2012 HK$'000** |
| **RESULTS** | | | | | |
| **Continuing operations** | | | | | |
| Turnover | 537,003 | 154,317 | 205,767 | 195,052 | **206,182** |
| Cost of sales | (603,421) | (67,005) | (120,930) | (103,294) | **(107,758)** |
| Gross profit (loss) | (66,418) | 87,312 | 84,837 | 91,758 | **98,424** |
| Other operating income | 3,213 | 218 | 409 | 448 | **1,086** |
| Distribution cost | (174) | (15) | (21) | – | **–** |
| Administrative expenses | (27,331) | (18,827) | (26,283) | (31,415) | **(39,563)** |
| Other expenses | (103,869) | (112,882) | (46,150) | (21,150) | **(21,150)** |
| Profit (loss) from operations | (194,579) | (44,194) | 12,792 | 39,641 | **38,797** |
| Finance costs | (9,093) | (33,139) | (41,491) | (44,510) | **(48,295)** |
| Loss from ordinary activities before tax | (203,672) | (77,333) | (28,699) | (4,869) | **(9,498)** |
| Income tax expense | (10,003) | – | – | – | **–** |
| Loss for the year from continuing operations | (213,675) | (77,333) | (28,699) | (4,869) | **(9,498)** |
| **Discontinued operations** | | | | | |
| Profit (loss) for the year from discontinued operations | – | (98,734) | 67,447 | – | **–** |
| Profit (loss) for the year | (213,675) | (176,067) | 38,748 | (4,869) | **(9,498)** |
| Attributable to: | | | | | |
| Owners of the Company | (217,814) | (179,113) | 37,851 | (4,875) | **(9,524)** |
| Non-controlling interests | 4,139 | 3,046 | 897 | 6 | **26** |
| | (213,675) | (176,067) | 38,748 | (4,869) | **(9,498)** |

| | At 31st December | | | | |
|---|---|---|---|---|---|
| | 2008 HK$'000 | 2009 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | **2012 HK$'000** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 391,892 | 1,217,815 | 1,101,291 | 1,213,686 | **1,666,023** |
| Total liabilities | (210,413) | (730,729) | (609,752) | (640,389) | **(622,224)** |
| Non-controlling interests | – | – | – | (6) | **(32)** |
| | 181,479 | 487,086 | 491,539 | 573,291 | **1,043,767** |

* The results for 2008 have not been represented for the discontinued operations in 2009.