HONBRIDGE HOLDINGS LIMITED
洪橋集團有限公司
(Stock Code: 8137)

Annual Report

2010

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. He Xuechu *(Chairman)*
Mr. Liu Wei, William *(Chief Executive Officer)*
Mr. Shi Lixin

Non-Executive Directors

Mr. Yan Weimin
Mr. Ang Siu Lun Lawrence

Independent Non-Executive Directors

Mr. Chan Chun Wai, Tony
Mr. Fok Hon
Mr. Ma Gang

COMPLIANCE OFFICER

Mr. Liu Wei, William

COMPANY SECRETARY

Mr. Lam King Ho *CPA(US), CPA(HK), ACCA*

AUTHORISED REPRESENTATIVES

Mr. Liu Wei, William
Mr. Lam King Ho

MINING TECHNICAL COMMITTEE

Dr. Dai Ta Gen
Dr. Liu Jian Xin
Dr. Luo Bao Lin
Dr. Wu Xi Qing

AUDIT COMMITTEE

Mr. Chan Chun Wai, Tony *(Committee Chairman)*
Mr. Fok Hon
Mr. Ma Gang

REMUNERATION COMMITTEE

Mr. Fok Hon *(Committee Chairman)*
Mr. Ma Gang
Mr. Chan Chun Wai, Tony
Mr. He Xuechu
Mr. Liu Wei, William

AUDITORS

BDO Limited

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

REGISTERED OFFICE

Scotia Centre
4th Floor, P.O. Box 2804
George Town, Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 2703, 27/F
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18th Floor, Fook Lee Commercial Centre
Town Plaza, 33 Lockhart Road
Wanchai
Hong Kong

STOCK CODE

8137

COMPANY WEBSITE

www.8137.hk

Chairman's Statement

I report the activities of the Company and its subsidiaries (together "the Group") for the year ended 31 December 2010.

BUSINESS REVIEW

2010 is a remarkable year of major acquisitions for Honbridge. Apart from the acquisition of 66% interest in a resources risk exploration company in Brazil, Xianglan Do Brazil Mineracao Ltda. at the beginning of the year, the Company has also entered into a share purchase agreement on 5 March 2010 with an independent third party Grupo Votorantim's wholly owned subsidiary Votorantim Novos Negocios Ltda. ("VNN") to acquire 100% interest of a company having rich iron mineral resources in Brazil Sul Americana de Metais S.A. ("SAM"), with an consideration of US$390,000,000 payable in cash. Based on an interim JORC compliant iron mineral resources report of SAM at the end of November 2010, the valuation of SAM estimated by a professional valuer was approximately US$1,659,000,000.

Sales of the Group's highly purified silicon has been substantially increased by 4.9 times in 2010. This is mainly attributable to the gradual recovery of the highly purified silicon market after the financial tsunami. The quality of our Group's highly purified silicon has also been upgraded steadily and recognised by the market. Despite the increase in year on year sales volume, prices are still subject to the risks of short term fluctuation that are affected by the market supply and demand.

The acquisitions of Xianglan Do Brazil and SAM will enlarge the business scope of the Company. Our resources and energy sector (including mining and silicon products) will become the Group's principal business in the near future.

PROSPECTS

The Company has disposed of the business associated with magazine publishing and advertising activities in the first quarter of 2011. The disposal will enable the Group to focus on the resources and energy sector with better growth potential, and enables the Group to have a clearer business strategy.

Regarding to the minerals and iron & steel products trading business, the Group has appointed a non-exclusive distributor in China through its wholly owned subsidiary established in Shanghai, Hongying Trading, to develop the iron & steel trading business in China and other overseas markets. Xianglan Do Brazil has already set up subsidiaries in Mexico and in Uruguay and has already cooperated with Mexican enterprises to build an iron ore storage centre near Manzanillo port, in order to acquire high grade iron ores from surrounding mines, which will be further cracked and processed. After testing and grading, the products will be shipped to the iron & steel enterprises or iron ores trading companies. The first batch iron ores has been packed and loaded for shipment in Mexico on 7 March 2011 and the first batch manganese ores have been departed from Brazil to Tianjin, China on 19 February 2011.

Pushing forward the SAM Iron Ore Project is the core task of the Group in 2011. The Company hopes that the major tasks for the phase one development plan of the SAM Iron Ore can be completed during the year, which includes the completion of the acquisition, the progression in obtaining various approvals from the Brazil government, completion of the construction design and the completion of the construction bidding.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and cooperative partners for their continued support during 2010 and all staff for their hard work.

He Xuechu
Chairman

Hong Kong
28 March 2011

BUSINESS REVIEW AND STRATEGY

For the year ended 31 December 2010, the Group recorded turnover of HK$73.5 million which comprised HK$49.8 million from the sale of highly purified silicon and HK$23.7 million from the publication of magazines. Loss for the year was HK$449.5 million which is HK$395.8 million higher than that for the last year. The increase was mainly due to the increase in amortisation of share options cost of HK$349.9 million, fair value loss on convertible notes of HK$28.9 million, deemed convertible notes interest of HK$24.1 million, fair value loss on loan to SAM of HK$13.1 million and deemed loan interest expense of HK$7.4 million that have no impact to the Group's cashflows.

The silicon market has been gradually recovered from the 2008 financial crisis. Silicon metal prices in China have been increased by approximately 30% compared to a year ago. Benefited from the market rebound, our silicon business achieved a record high turnover of HK$49.8 million during the year, representing approximately 4.9 times the turnover of the same period in 2009. Segment loss for the year was decreased by 86% to HK$6.3 million, which was because there was an impairment of goodwill of HK$35.7 million in 2009. Despite the research of solar grade silicon has achieved relatively significant progress that the testing samples have reached conversion rate of 16% as verified by China Academy of Sciences Photovoltaic and Wind Power Systems Quality Test Center, the products are still unstable and therefore cannot be put into commercial production.

Our publication business accounted for a turnover of HK$23.7 million, representing a 5% increase compared to 2009. Segment loss increased from HK$1.0 million in 2009 to HK$1.7 million in 2010 which was mainly due to the increase in general and administrative expenses of HK$1.6 million.

On 24 March 2010, the Group has completed the acquisition of 66% equity interest in Xianglan Do Brazil Mineracao Ltda. ("Xianglan Brazil"). As Xianglan Brazil is engaged in the business of mineral resources exploration, Xianglan Brazil did not contribute revenue to the Group. Segment loss of HK$4.0 million represented administrative expenses of Xianglan Brazil in the reporting period.

Considering that the limitation of financial resources in Xianglan Brazil and that the mining of manganese would take consideration amount of time, the Directors decided to leverage the limited financial resources of Xianglan Brazil and their connection in South America to develop the mineral products trading business that could bring cashflows and returns to the Group in the near future. Xianglan Brazil has set up subsidiaries in Mexico and Uruguay. The Group has also cooperated with Mexican enterprises to build an iron ore storage centre near Manzanillo port to acquire high grade iron ores from surrounding iron mines, which will be further cracked and processed. After testing and grading, the products will be shipped to the iron & steel enterprises or iron ores trading companies in China. The first batch iron ores has been packed and loaded for shipment in Mexico on 7 March 2011 and the first batch manganese ores have been departed from Brazil to Tianjin, China on 19 February 2011.

The Group under the existing management has been continuously looking for appropriate investment opportunities in the energy and resources sector. To implement such strategy, on 5 March 2010, the Group has entered into a share purchase agreement to acquire the entire issued share capital of an iron exploration company, Sul Americana de Metais S.A. ("SAM") which holds 83 iron exploration licenses in Minas Gerais and Bahia, Brazil. The directors of the Company consider that the acquisition of the entire interest of SAM has milestone significance to the Group's investments in the mining sector.

Subsequent to the signing of the acquisition agreement of SAM, on 26 March 2010, the Company has entered into a strategic cooperation agreement with Xinwen Mining Group Co., Ltd. in relation to the provision of technical support and financial resources to and the investment in the Company. On the same date, the Company and Shandong Iron and Steel Group Co., Ltd. entered into a cooperation memorandum of understanding in relation to the SAM Project.

Management Discussion and Analysis

On 16 June 2010 and 18 June 2010, SAM has entered into memorandum of understanding (MOU) respectively with Minas Gerais and Bahia state governments in the Federative Republic of Brazil ("Brazil") in relation to business cooperation. Under the MOU, the two state governments agreed to provide support and assistance to SAM during its implementation and operation, particularly with regard to the financing and licensing of the iron mining project.

The Group has also set up a wholly owned subsidiary in Shanghai, Shanghai Hongying Trading Co. Ltd., for the development of the domestic and international iron and steel products trading business.

On 21 October 2010, Shanghai Hongying Trading has appointed an non-exclusive distributor of steel products in China with estimated connection transaction amounts of not exceeding RMB300 million, RMB2,000 million and RMB2,100 million for each of the financial years ending 31 December 2010, 2011 and 2012 respectively. Due to the fact that Shanghai Hongying Trading has not completed the tax registration on time during 2010, Shanghai Hongying Trading has not yet recorded sales revenue.

The directors of the Company expect that the above acquisitions will enlarge the business scope of the Company and the development and mining activities will be the Group's principal business in the near future.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2010, the Group's operation was mainly financed by the internal financial resources and the substantial shareholder of the Group.

As at 31 December 2010, the Group had net current assets of HK$55.1 million (31 December 2009: net current liabilities of HK$5.0 million). Current assets comprised inventories of HK$8.7 million, cash and cash equivalents of HK$30.0 million, trade and bills receivables of HK$8.1 million, prepayments and other receivables of HK$11.6 million, and derivative financial assets of HK$44.3 million. Current liabilities comprised trade payables of HK$8.2 million, other payables, accrued expenses and receipts in advance of HK$28.3 million and borrowings of HK$11.1 million.

As at 31 December 2010, the gearing ratio of the Group which is measured by total loans and borrowings to total equity was 0.2 (31 December 2009: not available as the Group has negative equity).

The Board is of opinion that taking into account the internal financial resources of the Group and the financial support provided by the substantial shareholder, the Group has sufficient working capital for its present requirements.

MAJOR ACQUISITIONS

On 5 March 2010, the Company entered into a legally binding definitive agreement with Votorantim Novos Negocios Ltda. ("VNN") and its subsidiaries in which the Group will acquire 100% interest of Sul Americana de Metais S.A. ("SAM") for USD390 million.

The consideration of USD390 million will be settled by five installments upon the completion of: shareholders' approval of the Group; receipt of resources confirmation to the agreed level of and achievement of beneficiation standard and the cost of production to an agreed level; receipt of relevant permits necessary for the mining operation; commencement of port operation and commencement of mining operation. The five installments will be divided into USD10 million, USD65 million, USD115 million, USD100 million and USD100 million.

During the period from the current stage of the mine to the commencement of operation, VNN will provide necessary assistance to SAM. If the resources confirmation or the relevant government permits are obtained before schedule; or if the FOB cost is under BRL44 per tonne (adjustable for inflation), then VNN will receive rewards of not more than USD2 million; USD3 million or USD10 million respectively. If the resources confirmation or the relevant government permits are delayed, the consideration will be deducted by a maximum of USD3.75 million. Accordingly, the maximum amount of consideration to be paid by the Group for the SAM acquisition will be USD405 million and the minimum consideration will be USD386.25 million. Apart from that, the Group will provide a loan of USD35 million in total to SAM in one year from the signing of the agreement for the resource confirmation and beneficiation tests.

SAM is a limited company incorporated in the Federative Republic of Brazil ("Brazil") holding approximately 83 exploration licenses that are mainly iron ores.

The exploration areas are located along Minas Gerais and Bahia in Brazil, covering an area of approximately 1,155 square kilometres. These mines are divided into nine blocks, namely Block 5, 6, 7, 8, 9, 10, 11, 12 and 13. The intensive drilling program of the SAM Iron Ore Project on Block 8 has already been completed on 21 January 2011. A total of 459 drilling holes totalling 65,410 metres have been completed on Block 8. According to a JORC compliant report prepared by Coffey Mining and Golder Associates on Block 7 and Block 8 respectively, both are well-known global mining consultants, the measured resources was 340 million tonnes, indicated resources was 1,740 million tonnes and inferred resources was 1,440 million tonnes, totalling 3,520 million tonnes of ROM (run of mine), average grade at approximately 20% and prospective resources may reach above 6,000 million tonnes of ROM.

According to the loan agreement entered into between the Company and SAM, the Company has remitted USD22.07 million to SAM, for the purposes of resource confirmation and beneficiation tests. SAM plans to construct a processing plant and related infrastructure facilities carrying capacity of 25 million tonnes of 65% iron pellet feed per year.

As at the date of this report, the acquisition of SAM has not been completed. For details of the acquisition, please refer to the circular of the Company dated 5 November 2010.

SIGNIFICANT INVESTMENT PLANS

Save as disclosed above, as at 31 December 2010, the Group did not have any significant investment plans.

CAPITAL COMMITMENTS

As at 31 December 2010, the Group has contracted but not provided for capital commitments in relation to the acquisition of SAM amounting to USD380 million (equivalent to approximately HK$2,964,000,000).

CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any significant contingent liabilities.

PROSPECT

The Company has disposed of the business associated with magazine publishing and advertising activities in the first quarter of 2011. The disposal will enable the Group to focus on the resources and energy sector with better growth potential, and enables the Group to have a clearer business strategy.

The Company's subsidiary Kailun Photovoltaic situated in Shandong, China has been granted High New Technology Enterprise Certificate on 26 September 2010. The Company will continue its research and development on the stability of the solar grade products.

Regarding to the minerals and iron & steel products trading business, the Group has appointed a non-exclusive distributor in China through its wholly owned subsidiary established in Shanghai, Hongying Trading, to develop the iron & steel trading business in China and other overseas markets. Xianglan Do Brazil has already set up subsidiaries in Mexico and in Uruguay and has already cooperated with Mexican enterprises to build an iron ore storage centre near Manzanillo port, in order to acquire high grade iron ores from surrounding mines, which will be further cracked and processed. After testing and grading, the products will be shipped to the iron & steel enterprises or iron ores trading companies. The first batch iron ores has been packed and loaded for shipment in Mexico on 7 March 2011 and the first batch manganese ores have been departed from Brazil to Tianjin, China on 19 February 2011. When the storage centre reaches optimal operation, its processing capacity can reach approximately two million tonnes per annum. The Group has also been seeking for small scale iron mines leasing or mining sub-contract opportunities for the storage centre.

Pushing forward the SAM Iron Ore Project is the core task of the Group in 2011. The Company hopes that the major tasks for the phase one development plan of the SAM Iron Ore can be completed during the year, which includes the completion of the acquisition, the progression in obtaining various approvals from the Brazil government, completion of the construction design and the completion of the construction bidding.

The Directors expect that the minerals and iron & steel trading business will bring considerable amount of cashflow and return to the Company.

EMPLOYEES

As at 31 December 2010, the total number of employees of the Group was 194 (2009: 172). Employees' cost (including directors' emoluments) amounted to HK$64.1 million for the year (2009: HK$11.8 million).

The Group considers its employees as its most valuable assets. In addition to salary, other fringe benefits such as medical subsidies, life insurance, provident fund and subsidised training programs are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. Share options have also been granted to certain employees of the Group.

EXECUTIVE DIRECTORS

Mr. He Xuechu, aged 48, is the Chairman of the Company. Mr. He has extensive experience in financial management and in the investment field, is principally responsible for the Group's strategic planning and positioning. Mr. He graduated from 安徽財貿學院 (Anhui Finance and Trade College), the PRC in 1983. Since then, he has worked in 中華人民共和國商業部 (the Domestic Trade Ministry of the PRC), and China Resources (Holdings) Co. Ltd. During the period from 2001 to 2005, Mr. He was a director and shareholder of a number of companies, the shares of which are listed on the Stock Exchange, including Shanghai Zendai Property Limited (stock code: 0755) and Geely Automobile Holdings Limited (stock code: 0175). Mr. He is also director of Divine Mission Holdings Limited, Kailun Photovoltaic Materials Investments Limited, 濟寧凱倫光伏材料有限公司 (Jining Kailun Sog-Si Materials Co., Ltd.*), Great Ready Assets Limited, Beforward Trading Limited, Superb Taste Company Limited, Honbridge Management Limited, Jessicacode Limited, Infinite Sky Investments Limited and New Trinity Holdings Limited, etc., all being subsidiaries of the Company.

Mr. Liu Wei, William, aged 46, is the Chief Executive Officer of the Company. Mr. Liu has over 10 years of experience in corporate banking and corporate finance, including his previous employment with The Hongkong Chinese Bank Ltd. and Lippo Group. During the period from 2004 to 2006, Mr. Liu was a director of Hans Energy Company Limited (stock code: 0554), the shares of which are listed on the Stock Exchange. Mr. Liu was also a director of China Metal and Technologies (H.K.) Limited, a private company engaged in the trading of non-ferrous metal. He was the managing director of a private company engaged in media business. Mr. Liu was experienced in the publication business and was involved in the publication of 世界經濟論壇 (World Economic Review), 今日健康生活 (Healthy Life Today) and 中國新聞周刊 (China News Weekly) during his tenure with the above private company. Mr. Liu holds a master degree in business administration from the University of San Francisco. Mr. Liu is also director of Divine Mission Holdings Limited, Kailun Photovoltaic Materials Investments Limited, 濟寧凱倫光伏材料有限公司 (Jining Kailun Sog-Si Materials Co., Ltd.), Great Ready Assets Limited, Beforward Trading Limited, Superb Taste Company Limited, Honbridge Management Limited, Jessicacode Limited and Clear Success Limited, Infinite Sky Investments Limited, New Trinity Holdings Limited, Honbridge International Trading Company Limited and 上海洪鷹貿易有限公司 (Shanghai Hongying Trading Co. Ltd.), all being subsidiaries of the Company.

Mr. Shi Lixin, aged 43, a postgraduate diploma holder in business administration from the University of Wales College, Newport, has experience in mergers and acquisitions and project finance. Mr. Shi is the chief executive officer of 萬博港工業品超市有限公司 (Wanbo Industrial Provision & Exposition Co., Ltd.) since 2003 and was once the special assistant to the chairman of 湖南投資集團股份有限公司 (Hunan Investment (Group) Corporation). Mr. Shi was also the chief executive officer of a company which was involved in the business procurement of 湘潭高新技術產業開發區 (Xiangtang Hi-Tech Industrial Development Zone), which in turn contains the 湘潭(德國)工業園 (Xiangtang (Germany) Industrial Park). Mr. Shi is also director of 濟寧凱倫光伏材料有限公司 and 上海洪鷹貿易有限公司 (Shanghai Hongying Trading Co. Ltd.).

NON-EXECUTIVE DIRECTORS

Mr. Ang Siu Lun, Lawrence, aged 50, holds a Bachelor of Science degree in physics and computer science and a Master Business Administration degree from the Chinese University of Hong Kong. Prior to joining the Group, Mr. Ang worked in a number of major international investment banks for seventeen years with extensive experience in equity research, investment banking and financial analysis, focusing on China asset market, automobile industry and investment banking business. Mr. Ang is an executive director of Geely Automobile Holdings Limited (HK Stock Code: 175) and an independent non-executive director of Genvon Group Limited (HK Stock Code: 2389). Mr. Ang assists the Group's capital market activities and investor relations.

Mr. Yan Weimin, aged 43, graduated from Central South University in 1989 majoring in automation. He also holds an EMBA degree of United Business Institutes (UBI) in Belgium. Mr. Yan has 20 years experience in the trading of mineral products. He has served in Shanghai Guohong Trading Co. Ltd. as the general manager and Shanghai Yingyue Industrial Co. Ltd as the chairman. Mr. Yan is responsible as the Group's contact person for Mainland China's steel conglomerates, mining corporations, and port and mining construction enterprises. He is also a director and the chairman of 上海洪鷹貿易有限公司 (Shanghai Hongying Trading Co. Ltd.).

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chun Wai, Tony, aged 39, joined the Company as Independent Non-Executive Director in October 2007. Mr. Chan is a Certified Public Accountant and works as a director in a certified public accounting practice. He has extensive experience in general assurance and business advisory services in both Hong Kong and the PRC. Moreover, Mr. Chan has extensive experience in public listings in Hong Kong and Singapore, mergers and acquisitions as well as corporate finance. He holds a Master degree in Business Administration from the Manchester Business School. Mr. Chan is now the independent non-executive director of Hans Energy Company Limited, Wai Chun Mining Industry Group Company Limited and Oriental City Group Holdings Limited, the shares of which are listed on the Hong Kong Stock Exchange. He is also an independent non-executive director of China Nutrifruit Group Limited, the share of which is listed on American Stock Exchange.

Mr. Fok Hon, aged 53, is a director for several companies in Hong Kong including All Leaders Publication Group Ltd., which is engaged in media and publishing business, including publication of financial monthly "All Asian Leaders", commercial forum and seminar relevant services, e-commerce platform "Chinese-No.1.com" which only serves global high-end Chinese business leaders, and etc.. Since 2000 Mr. Fok became the founding director and at present the director of The Global Foundation of Distinguished Chinese Ltd., a charitable organization registered in Hong Kong.

Mr. Ma Gang, aged 54, graduated from Anhui Finance and Trade College, the PRC in 1983 with a Bachelor degree in Economics. Between 2004 and 2006, Mr. Ma was employed as the vice managing director of Shanghai HongYe Real Estate Development Co. Ltd. which is principally engaged in properties development business.

MINING TECHNICAL COMMITTEE

Dr. Dai Ta Gen, aged 58, graduated from Central South University of Technology with his doctorate degree in 1989 and is the Dean of Geosciences and Environmental Engineering Faculty of Central South University as well as a professor and a tutor of doctoral students. Being the expert who takes the special allowance from the State Council, Dr. Dai participates in major posts in geological sector. He is also the vice president of Hunan Geology Society, the president of Hunan Society of Mineralogy, Petrology and Geochemistry and a member of Teaching Committee of Applied Geology in Education Department.

Dedicated in geological studies for more than 30 years, Professor Dai has made significant achievements in the area, especially in the prospecting for successive mineral resources.

Dr. Liu Jian Xin, aged 48, obtained the Globe Exploration and Information Technology doctoral degree from Central South University in 2006. Dr. Liu is the Dean of Information Physics Engineering Faculty of Central South University as well as a professor and a tutor of doctoral students. Dr. Liu is a leader of the Hunan Province Higher Education "Mineral Resources and Disasters Exploration" research innovation team.

Dr. Liu has many years of experience in mineral resources exploration, and engineering exploration theoretical and applied studies. He possesses stable research direction and has received well-recognized achievements in prediction and precise position of high depth mineral resources, production mines high depth globe physics three dimensional mapping, globe physics high precision processing and comprehensive explanation, engineering globe physics exploration, etc. Dr. Liu is also one of the selected experts for the New Century National Talents Programme.

Dr. Liu is also the ninth and tenth Hunan Province committee member of the Political Consultative Conference, the chairman of Hunan Province Globe Physics Society and a committee member of Chinese Geophysical Society.

Biographical Details of Directors and Senior Management

Dr. Luo Bao Lin, aged 63, educated at Tsinghua University and Chinese Academy of Sciences and obtained the degree of Doctor of Engineering from Chinese Acedemy of Sciences. Dr. Luo is also a research professor and doctoral supervisor in the Chinese Academy of Sciences. Dr. Luo has been a visiting scholar and visiting professor in The University of British Columbia, Canada and Kunsan National University, South Korea. He is an Honorary Member of the Chinese Society of Particuology. Dr. Luo is also an expert who takes the special allowance from the State Council.

Dr. Wu Xiqing, aged 48, awarded a bachelor degree in ore beneficiation by Central South College of Mining and Metallurgy in 1984, a master degree in Minerals Processing by Central South University of Technology in 1988, and a doctor of philosophy (PhD) in Minerals Engineering by the Imperial College of Science, Technology and Medicine, University of London in 2002. Dr. Wu is a senior engineer and the deputy dean of the Minerals Processing Department at the Central South University.

Dr. Wu has dedicated his career to developing theory and application in Minerals Processing and Resources Multiple-Exploration, participating in and taking charge of many research and engineering projects in China and abroad. He is well experienced in minerals processing including the beneficiation of low-grade iron, non-ferrous metals and rare metallic ores.

Dr. Wu has been in charge of the beneficiation test of SAM in Brazil since 12 October 2010.

SENIOR MANAGEMENT

Mr. Lam King Ho, aged 41, holds a bachelor degree in accounting and finance and a postgraduate diploma in business administration. He is a member of the American Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Lam has over 18 years of finance and business management experience in major international accounting firms and listed companies in Hong Kong.

Mr. Wong Sin Ping, aged 61, Chief Financial Officer of SAM and Xianglan Brazil, is a member of the Hong Kong Institute of Certified Public Accountants since 1984. He has 23 years of experience in finance, investment and business management at China Resources (Holdings) Company Limited.

Directors' Report

The Directors of the Company present their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 18 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated of comprehensive income statement on page 26 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

FINANCIAL SUMMARY

A summary of the results of the Group for the last five financial years is set out on page 96 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 36 to the consolidated financial statements.

DIRECTORS

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

Executive Director:

Mr. He Xuechu *(Chairman)*
Mr. Liu Wei, William *(Chief Executive Officer)*
Mr. Shi Lixin

Non-Executive Director:

Mr. Yan Weimin
Mr. Ang Siu Lun Lawrence

Independent Non-Executive Director:

Mr. Chan Chun Wai, Tony
Mr. Fok Hon
Mr. Ma Gang

In accordance with Article 116 of the Articles of Association of the Company, Mr. Fok Hon and Mr. Ma Gang will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. All other remaining Directors continue in office.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors entered into a service contract with the Company which shall continue thereafter unless and until terminated by either party serving to the other not less than three months' notice in writing.

None of the Directors has entered into any service contract or has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

Long positions in the ordinary shares of HK$0.001 each of the Company

	Number of shares in the Company					
Name of director	Beneficial owner	Interest of spouse	Interest of controlled corporation	Number of Share option[2]	Total	Approximate percentage of shareholding (%)
HE Xuechu	–	21,816,000	4,095,000,000[1]	–	4,116,816,000	67.20
LIU Wei, William	–	–	–	40,000,000	40,000,000	0.65
SHI Lixin	–	–	–	30,000,000	30,000,000	0.49
YAN Weimin	–	–	–	30,000,000	30,000,000	0.49
ANG Siu Lun, Lawrance	–	–	–	15,000,000	15,000,000	0.24
CHAN Chun Wai, Tony	–	–	–	3,000,000	3,000,000	0.05
FOK Hon	–	–	–	3,000,000	3,000,000	0.05
MA Gang	–	–	–	3,000,000	3,000,000	0.05

Note:

1. The 4,095,000,000 shares were held by Hong Bridge Capital Limited ("Hong Bridge"). Hong Bridge is wholly owned by Mr. HE Xuechu.

2. This refers to the number of underlying shares of the Company covered by its share option scheme.

Directors' Report

Save as disclosed above and the interests as disclosed below, none of the Directors or chief executives of the Company had, as at 31 December 2010, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company received from each of the Independent Non-Executive Directors, Mr. Chan Chun Wai, Tony, Mr. Fok Hon and Mr. Ma Gang, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers all of the Independent Non-Executive Directors to be independent.

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Scheme") was adopted on 20 December 2001 and became effective on 8 January 2002. Particulars of the Scheme as required under the GEM Listing Rules are set out below:

(i) Summary of the Scheme

1. Purpose of the Scheme

The purpose of the Scheme is to recognise and motivate the contribution of the Employees (as defined in subsection headed "Participants of the Scheme" below) and other person(s) who may make a contribution to the Group and to provide incentives and help the Company in retaining its existing Employees and recruiting additional Employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

2. Participants of the Scheme

The Board of Directors of the Company or a duly authorised committee thereof (the "Board"), may, at its discretion, makes offers to any full time or part time employee (including any executive and nonexecutive director or proposed executive and non-executive director) of the Group (the "Employees"), adviser, consultant, contractor, client or supplier who have contributed to the Group (collectively the "Participants"), to take up options to subscribe for shares of HK$0.001 each in the share capital of the Company ("Shares") in accordance with the provisions of the Scheme.

3. Total number of Shares available for issue under the Scheme

Pursuant to the letter issued by the Stock Exchange on 7 January 2002, the total number of Shares available for issue under options which may be granted under the Scheme is 551,388,371 Shares, being 10% of the issued share capital immediately following refreshment of the Scheme on 15 March 2010.

As at 31 December 2010, an aggregate of 445,240,000 Shares were issuable pursuant to share options granted. For the year ended 31 December 2010, 1,200,000 options were exercised by the grantee pursuant to the Scheme.

As at 31 December 2010, the total number of Shares available for issue pursuant to the grant of further options under the Scheme was 106,148,371, representing approximately 1.7% of the issued share capital of the Company as at 31 December 2010.

4. **Maximum entitlement of each participant**

No Participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in any 12 month period up to the date of grant to such Participant would exceed 1% of the Shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates (as defined in the GEM Listing Rules) abstaining from voting.

5. **Period within which the Shares must be taken up under an option**

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option during the period an option may be exercised.

6. **Minimum period, if any, for which an option must be held before it can be exercised**

At the time of granting an option, the Board may, at its discretion, specify the minimum period(s), if any, for which an option must be held before it can be exercised.

7. **Amount payable upon acceptance of the option and the period within which the payment must be made**

HK$1.00 shall be paid within 5 business days from the date of offer of the option.

8. **Basis of determining the exercise price of the option**

The exercise price for Shares under the Scheme shall be a price determined by the Board, but in any case will not be less than the higher of:

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer, which must be a trading day;

(b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer; or

(c) the nominal value of a Share.

9. **Remaining life of the Scheme**

Subject to early termination of the Scheme pursuant to the terms thereof, the Scheme shall be valid and effective for a period of 10 years commencing from the date on which the Scheme becomes effective, i.e. 8 January 2002 and ending on 7 January 2012.

Details of the principal terms of the Scheme are summarised under the sub-section headed "SHARE OPTION SCHEME" in Appendix IV to the Prospectus of the Company dated 31 December 2001.

(ii) Details of options granted

Particulars and movements during the year of the outstanding share options granted under the Scheme and Option Deed were as follows:

Name or category of participant	Outstanding as at 01/01/2010	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31/12/2010	Date of grant of share options (Note a)	Exercise period of share options	Exercise price per share option (Note b) HK$	Price immediately preceding the grant date of share options (Note c) HK$	Price immediately preceding the exercise date of share options HK$
	Number of share options										
Director											
LIU Wei, William	10,000,000	–	–	–	–	10,000,000	22/11/2007	22/05/2008 – 07/01/2012	1.20	1.20	N/A
	–	30,000,000	–	–	–	30,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
SHI Lixin	10,000,000	–	–	–	–	10,000,000	22/11/2007	22/05/2008 – 07/01/2012	1.20	1.20	N/A
	–	20,000,000	–	–	–	20,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
YAN Weimin	–	30,000,000	–	–	–	30,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
ANG Siu Lun, Lawrence	–	15,000,000	–	–	–	15,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
CHAN Chun Wai, Tony	–	3,000,000	–	–	–	3,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
FOK Hon	–	3,000,000	–	–	–	3,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
MA Gang	–	3,000,000	–	–	–	3,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
Sub-total	20,000,000	104,000,000	–	–	–	124,000,000					
Employee											
In aggregate	1,200,000	–	(1,200,000)	–	–	–	22/11/2007	22/05/2008 – 07/01/2012	1.20	1.20	2.52-3.28
	–	23,700,000	–	–	(2,700,000)	21,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
Sub-total	1,200,000	23,700,000	(1,200,000)	–	(2,700,000)	21,000,00					
Strategic cooperative partner (Xinwen)	–	300,000,000	–	–	–	300,000,000	25/11/2010	25/11/2010 – 24/11/2013	3.15	3.09	N/A
Others	240,000	–	–	–	–	240,000	15/04/2002	15/04/2003– 07/01/2012	0.69	0.68	N/A
Total	21,440,000	427,700,000	(1,200,000)	–	(2,700,000)	445,240,000					

Notes:

(a) All share options granted on 15 April 2002 are subject to a vesting period and becoming exercisable in whole or in part in the following manner:

From the date of grant of share options	Exercisable Percentage
Within 12 months	Nil
13th – 24th months	$33^1/_3$%
25th – 36th months	$33^1/_3$%
37th – 48th months	$33^1/_3$%

Share options granted on 22 November 2007 are subject to a vesting period of six months and becoming exercisable in whole after then.

(b) The price of the Shares disclosed as immediately preceding the grant date of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.

(c) The weighted average closing price of the Shares immediately before the date on which the options were exercised.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 December 2010, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its ultimate holding company or any of its subsidiaries, a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or the chief executive, or any of their spouses or children under the age of 18, was granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed "CONNECTED TRANSACTIONS" below, no contracts of significance to which the Company, its ultimate holding company or any of its 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.

MANAGEMENT CONTRACTS

No contract for the management and administration of the whole or any substantial part of the business of the Company was entered into or subsisted during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2010, the following persons, other than the Directors or chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

Long Positions of Substantial Shareholders in the Ordinary Shares of HK$0.001 Each of the Company

	Number of Shares in the Company				
Name of Shareholder	**Beneficial owner**	**Interest of spouse**	**Interests of controlled corporation**	**Total number of shares held**	**Approximate percentage of shareholding (%)**
Hong Bridge	4,095,000,000 (Note 1)	–	–	4,095,000,000	66.85
HE Yuechu (Note 2)	–	21,816,000	4,095,000,000 (Note 1)	4,116,816,000	67.20
FOO Yatyan (Note 2)	21,816,000	4,095,000,000	–	4,116,816,000	67.20
Brilliant People Limited	1,000,000,000 (Note 3)	–	–	1,000,000,000	16.32
Xin Wen Mining Group Company Limited	300,000,000 (Note 4)	–	10,000,000	310,000,000	5.06

Notes:

1. The 4,095,000,000 shares were held by Hong Bridge. Hong Bridge is wholly owned by Mr. HE Xuechu.
2. Ms. FOO Yatyan is the spouse of Mr. HE Xuechu.
3. The 1,000,000,000 shares held by Brilliant People Limited represent 600,000,000 shares of the Company and HK$400,000,000 convertible notes with an initial conversion price of HK$1.0 per conversion share of the Company.
4. The 300,000,000 shares held by Xin Wen Mining Group Company Limited represent 300,000,000 share options with exercise price of HK$3.15 per share of the Company.

Save as disclosed above, as at 31 December 2010, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, other than those disclosed under the sections headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and "SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES" above, there is no other person who is directly or indirectly interested in 5% or more of the share capital of the Company then issued and who is able, as a practical matter, to direct or influence the management of the Company.

CONNECTED TRANSACTIONS

As at 31 December 2010, Hong Bridge Capital Limited, the ultimate holding company of the Company, provided loans aggregating HK$304,800,000 to the Group. The loans are interest free in the first two years and bear interest at prime rate minus 1.25% per annum in the third year.

DIRECTORS' AND MANAGEMENT SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Mr. FOK Hon, an Independent Non-executive Director of the Company, is also the executive director of All Leaders Publication Group Limited. Since All Leaders Publication Group Limited is engaged in the media and publication business. Mr. FOK is regarded as interested in such competing business of the Group.

Mr YAN Weimin, a non-executive director of the Company, is a shareholder holding 70% equity interests of Shanghai Yingyue Industrial Co. Ltd. ("Yingyue"), a company incorporated in the PRC. Yingyue is principally engaged in the provision of raw materials for construction (including steel products) in the PRC. An indirect wholly-owned subsidiary of the Company, Shanghai Hongying Trading Co. Ltd. ("Hongying Trading"), is a limited liabilities company incorporated in the PRC for the purpose of carrying out trading of steel and steel related products. Hongying Trading has entered into a distribution agreement with Yingyue, pursuant to which, Yingyue will become a non-exclusive distributor of the steel products sourced by Hongying Trading. Accordingly, Mr YAN is regarded as interested in such competing business of the Group by virtue of his interest in Yingyue.

Save as disclosed above, none of the Directors or the management shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the year ended 31 December 2010.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Other than the contracts as disclosed under the section headed "DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE", there was no contract of significance between the Company, its ultimate holding company or its subsidiaries and a controlling shareholder or any of its subsidiaries subsisting during or at the end of the year. Furthermore, there was no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

PRE-EMPTIVE RIGHTS

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

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme are set out in note 41 to the consolidated financial statements.

CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2010, the five largest customers of the Group accounted for 46% of the Group's total turnover and the five largest suppliers of the Group accounted for 53% of the Group's total purchases. In addition, the largest supplier accounted for 35% of the Group's total purchases.

None of the Directors, their associates, or shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest suppliers and customers as at 31 December 2010.

AUDIT COMMITTEE

The Company had established an audit committee with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group. The audit committee comprises Mr. Chan Chun Wai, Tony (Committee Chairman), Mr. Fok Hon and Mr. Ma Gang, who are Independent Non-Executive Directors of the Company.

During the year, the audit committee held four meetings to review and comment on the Company's 2009 annual report, 2010 half-yearly report and quarterly reports as well as the Company's internal control procedures.

The Group's annual results for the year ended 31 December 2010 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2010, neither the Company, its ultimate holding company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDITORS

The financial statements of the Company in respect of the previous two financial years were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Due to a merger of the businesses of GTHK and BDO Limited ("BDO") to practise in the name of BDO as announced on 26 November 2010, GTHK resigned and BDO was appointed as auditors of the Company effective from 2 December 2010. The financial statements of the Company for the year ended 31 December 2010 were audited by BDO.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

On behalf of the Board
He Xuechu
Chairman

Hong Kong
28 March 2011

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasizes accountability and transparency and are adopted in the best interests of the Company and its shareholders.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company complied with the Code on Corporate Governance Practices (the "CG Code") of the GEM Listing Rules throughout the year ended 31 December 2010 with the exception that the Articles of Association of the Company does not provide that (a) every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting of the Company after their appointment. In view of good corporate governance practices, all Directors have agreed to comply with the GEM Listing Rules and that their term of appointment will be limited accordingly. Furthermore, every director of the Company, including those appointed for a specific term, voluntarily retires from his office by rotation at least once every three years notwithstanding that he is not required to do so by the Articles of Association of the Company. Amendments to the Articles of Association of the Company have been proposed at the forthcoming Annual General Meeting in order to bring the Articles of Association of the Company in line with the changes brought about by the amendments to GEM Listing Rules as well as the provisions of the CG Code.

BOARD COMPOSITION AND BOARD PRACTICES

The Board of Directors (the "Board") of the Company composed of 8 Directors, including the Chairman, the Chief Executive Officer who are Executive Directors, another Executive Director, 2 Non-Executive Directors and 3 Independent Non-Executive Directors. Over one third of the Board are Independent Non-Executive Directors who have appropriate professional qualifications in accounting or related financial management expertise. Their biographies are set out in the Biographical Details of Directors and Senior Management Section on pages 7 to 8 of this annual report.

Review will be made regularly on the Board composition to ensure that it has a balance of skills and experience appropriate for the requirement of the business of the Group. Also, a balanced composition of Executive Directors and Independent Non-Executive Directors is maintained to ensure independence and effective management. The Company has satisfied the GEM Listing Rules in having one of the Independent Non-Executive Directors with appropriate accounting qualifications and expertise to chair the Audit Committee.

Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all Independent Non-Executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

A formal written procedure and policy have been adopted by the Board for the appointment of new directors. When selecting potential candidates for directors, skills, experience, expertise, his devotion of time, conflicts of interests are key factors for consideration. No Nomination Committee has been set up, and hence, the nomination and selection process are performed by the Board. The Board meets at least once a year in discussing whether the composition, size, structure of the Board is adequate. The Board met once with a majority of Directors present. According to the Articles of Association of the Company, one-third, and not exceeding one-third of Directors are subject to reelection. The CG Code states that all Directors must rotate at least once every three years. Despite the non-provision of the clause in the Articles of Association of the Company, every director of the Company, including those appointed for a specific term, voluntarily retires from his office by rotation at least once every three years notwithstanding that he is not required to do so by the Articles of Association of the Company.

The roles of the Chairman and the Chief Executive Officer are exercised by separate individuals with a view to reinforce their independence and accountability. Key and important decisions shall be fully discussed at the board meetings. All Directors have been fully consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and receive adequate and reliable information in a timely manner.

Daily operation and managing of the business of the Group, inter alia, the implementation of strategies are delegated to the executive committee, comprising all of the Executive Directors. They report periodically to the Board their work and business decisions.

The Board meets regularly and held eleven meetings in 2010:

	Attendance
Executive Director	
He Xuechu *(Chairman)*	5/11
Liu Wei, William *(Chief Executive Officer)*	11/11
Shi Lixin	11/11
Non-Executive Director	
Yan Weimin	4/4
Ang Siu Lun Lawrence	3/4
Independent Non-Executive Director	
Chan Chun Wai, Tony	10/11
Fok Hon	11/11
Ma Gang	11/11

Notice of at least seven business days are given to the Directors for regular meetings. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Articles of Association of the Company. The Company Secretary ensures that the procedure and all applicable rules and regulations are strictly and fully complied with. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and are available for inspection at any reasonable time on reasonable notice by any Directors.

Director shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules for Directors. In addition, the Board has established similar guidelines for relevant employees who are likely in possession of unpublished price sensitive information in relation to the Group or its securities.

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the year ended 31 December 2010.

INTERNAL CONTROL

Recognising that a well-designed and effective system of internal control is crucial to safeguard the assets of the Company and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirement of GEM Listing Rules, the Directors also acknowledge that they have overall responsibility for the Company's internal control, financial control and risk management and shall monitor its effectiveness from time to time. Therefore, regular review of financial statements of subsidiaries are carried out by the qualified accountant of the Company.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 24 to 25 of this annual report.

AUDITORS' REMUNERATION

For the year ended 31 December 2010, the Auditors of the Company received approximately HK$800,000 for audit services and the former auditors of the Company, Grant Thornton now known as JBPB & Co. received HK$1,730,000 for acting as reporting accountants for the Company's notifiable transactions.

REMUNERATION COMMITTEE

The Remuneration Committee was set up on 23 March 2005. The Committee members are Mr. Fok Hon (Chairman of the Committee), Mr. Ma Gang, Mr. Chan Chun Wai, Tony, Mr. He Xuechu and Mr. Liu Wei, William. The Committee met once in 2010 and was attended by all Committee members. The policy for the remuneration of Executive Directors and the Senior Management was reviewed by the Committee. Remuneration, including basic salary, performance bonus, of the Executive Directors and Senior Management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice. Granting share options is considered as one of the means for giving long term benefits to and retaining staff.

Remuneration, comprising directors' fees, of Independent Non-Executive Directors is subject to annual assessment for shareholders' approval at the annual general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings.

AUDIT COMMITTEE

The Company had established an audit committee with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group. The audit committee comprises Mr. Chan Chun Wai, Tony (Committee Chairman), Mr. Fok Hon and Mr. Ma Gang, who are Independent Non-Executive Directors of the Company.

During the year, the audit committee held four meetings to review and comment on the Company's 2009 annual report, 2010 half-yearly report and quarterly reports as well as the Company's internal control procedures.

The Group's annual report for the year ended 31 December 2010 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

Independent Auditor's Report

BDO

Tel : +852 2541 5041
Fax: +852 2815 2239
www.bdo.com.hk

電話：+852 2541 5041
傳真：+852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

香港干諾道中111號
永安中心25樓

To the shareholders of Honbridge Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Honbridge Holdings Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 26 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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 financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Lo Ngai Hang
Practising Certificate number P04743

Hong Kong, 28 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	5	**73,531**	32,592
Direct operating expenses		**(62,469)**	(20,567)
Other operating income	7	**4,322**	342
Selling and distribution costs		**(7,392)**	(5,904)
Administrative expenses		**(30,141)**	(17,270)
Other operating expenses	8	**(45,084)**	(3,309)
Share-based payment expenses	37	**(349,883)**	–
Impairment of goodwill		**–**	(35,686)
Operating loss	8	**(417,116)**	(49,802)
Finance costs	9	**(32,397)**	(3,918)
Loss before income tax		**(449,513)**	(53,720)
Income tax expense	10	**–**	–
Loss for the year		**(449,513)**	(53,720)
Other comprehensive income, including reclassification adjustments			
Exchange gain/(loss) on translation of financial statements of foreign operations		**101,570**	(4)
Other comprehensive income for the year, net of tax		**101,570**	(4)
Total comprehensive income for the year		**(347,943)**	(53,724)
Loss for the year attributable to :			
Owners of the Company	11	**(445,650)**	(50,136)
Non-controlling interests		**(3,863)**	(3,584)
		(449,513)	(53,720)
Total comprehensive income attributable to :			
Owners of the Company		**(378,586)**	(50,138)
Non-controlling interests		**30,643**	(3,586)
		(347,943)	(53,724)
Loss per share for loss attributable to the owners of the Company during the year	12		
– Basic		**HK(7.45) cents**	HK(1.21) cents
– Diluted		**N/A**	N/A

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	**2010** **HK$'000**	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**36,577**	33,094
Exploration and evaluation assets	16	**2,114,385**	–
Prepaid land lease payments	17	**21,136**	20,840
Goodwill	19	**34,910**	–
Deposits for acquisition of business	20	**78,000**	–
Advances to an acquiring business	21	**141,503**	–
Deposits for acquisition of property, plant and equipment	22	**–**	407
		2,426,511	54,341
Current assets			
Inventories	23	**8,686**	6,024
Trade and bill receivables	24	**8,074**	7,129
Prepayments and other receivables	25	**11,599**	10,470
Derivative financial assets	26	**44,354**	–
Cash and cash equivalents	28	**30,046**	16,240
		102,759	39,863
Current liabilities			
Trade payables	29	**8,206**	8,545
Other payables, accrued expenses and receipts in advance	30	**28,309**	21,906
Borrowings	31	**11,148**	14,375
		47,663	44,826
Net current assets/(liabilities)		**55,096**	(4,963)
Total assets less current liabilities		**2,481,607**	49,378
Non-current liabilities			
Borrowings	31	**266**	597
Loans from ultimate holding company	32	**283,851**	49,026
Loan from a minority equity holder of a subsidiary	33	**6,229**	5,933
Convertible bonds	34	**189,333**	–
Deferred tax liabilities	35	**719,584**	693
		1,199,263	56,249
Net assets/(liabilities)		**1,282,344**	(6,871)

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
EQUITY			
Equity attributable to the owners of the Company			
Share capital	36	**6,126**	5,513
Reserves	38	**780,630**	(28,854)
		786,756	(23,341)
Non-controlling interests		**495,588**	16,470
Total equity		**1,282,344**	(6,871)

He Xuechu
Chairman

Liu Wei, William
Director

Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**408**	623
Investments in subsidiaries	18	**937,367**	34,307
Advances to an acquiring business	21	**141,503**	–
		1,079,278	34,930
Current assets			
Prepayments and other receivables	25	**1,529**	596
Derivative financial assets	26	**44,354**	–
Amounts due from subsidiaries	27	**86,176**	200
Cash and cash equivalents	28	**1,617**	1,107
		133,676	1,903
Current liabilities			
Other payables and accrued expenses	30	**1,687**	857
Amounts due to subsidiaries	27	**1,078**	1,079
		2,765	1,936
Net current assets/(liabilities)		**130,911**	(33)
Total assets less current liabilities		**1,210,189**	34,897
Non-current liabilities			
Loans from ultimate holding company	32	**283,851**	49,026
Convertible bonds	34	**189,333**	–
		473,184	49,026
Net assets/(liabilities)		**737,005**	(14,129)
EQUITY			
Share capital	36	**6,126**	5,513
Reserves	38	**730,879**	(19,642)
Total equity		**737,005**	(14,129)

He Xuechu
Chairman

Liu Wei, William
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from operating activities			
Loss before income tax		**(449,513)**	(53,720)
Adjustments for :			
Depreciation of property, plant and equipment	15	**1,461**	2,730
Amortisation of prepaid land lease payments	17	**454**	445
Reversal of impairment of inventories		**–**	(810)
Impairment of goodwill		**–**	35,686
Interest expense on other loans	9	**677**	1,011
Interest expense on convertible bonds	9	**24,063**	699
Interest expense on loans from ultimate holding company	9	**7,361**	2,149
Interest expenses on loan from a minority equity holder of a subsidiary	9	**296**	59
Fair value loss on initial recognition of advances to an acquiring business	8	**13,115**	–
Fair value loss on derivative financial assets	8	**28,879**	–
Share-based payments		**349,883**	–
Bank interest income	7	**(21)**	(125)
Interest income on advances to an acquiring business	7	**(4,049)**	–
Operating loss before working capital changes		**(27,394)**	(11,876)
(Increase)/Decrease in inventories		**(2,662)**	8,855
Increase in trade and bill receivables		**(945)**	(977)
Increase in prepayments and other receivables		**(720)**	(1,370)
(Decrease)/Increase in trade payables		**(339)**	1,035
Increase/(Decrease) in other payables, accrued expenses and receipts in advance		**6,119**	(443)
Cash used in operations		**(25,941)**	(4,776)
Interest paid on other loans		**(677)**	(1,011)
Net cash used in operating activities		**(26,618)**	(5,787)
Cash flows from investing activities			
Interest received		**21**	125
Purchases of property, plant and equipment	15	**(3,423)**	(5,190)
Deposits paid for acquisition of business		**(78,000)**	–
Decrease/(Increase) in deposits paid for acquisition of property, plant and equipment		**407**	(407)
Acquisition of subsidiaries and businesses (net of cash and cash equivalents acquired)	43	**18,982**	–
Advances to an acquiring business		**(150,569)**	–
Net cash used in investing activities		**(212,582)**	(5,472)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from financing activities			
Drawdown of borrowings		**5,876**	5,670
Drawdown of loans from ultimate holding company		**253,800**	4,000
Drawdown of loan from a minority equity holder of a subsidiary		**–**	6,800
Repayment of borrowings		**(9,978)**	(9,747)
Proceeds from Issue of share capital		**1,440**	–
Net cash generated from financing activities		**251,138**	6,723
Net increase/(decrease) in cash and cash equivalents		**11,938**	(4,536)
Cash and cash equivalents at 1 January		**16,240**	20,776
Effect of foreign exchange rate changes		**1,868**	–
Cash and cash equivalents at 31 December		**30,046**	16,240
Analysis of cash and cash equivalents			
Cash at banks and in hand		**30,046**	16,240

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to the owners of the Company										
	Share capital HK$'000	Share premium* HK$'000	Capital reserve* HK$'000	Other reserve* HK$000	Share-based payment reserve* HK$'000	Translation reserve* HK$'000	Convertible bond equity reserve* HK$'000	Accumulated losses* HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
At 1 January 2009	3,413	30,211	(327)	4,877	3,537	74	1,700	(32,359)	11,126	19,686	30,812
Conversion right of convertible bonds exercised	2,100	14,300	–	–	–	–	(1,700)	–	14,700	–	14,700
Arising from loans from ultimate holding company	–	–	–	415	–	–	–	–	415	–	415
Arising from loan from a minority equity holder of a subsidiary	–	–	–	556	–	–	–	–	556	370	926
Transactions with owners	2,100	14,300	–	971	–	–	(1,700)	–	15,671	370	16,041
Loss for the year	–	–	–	–	–	–	–	(50,136)	(50,136)	(3,584)	(53,720)
Other comprehensive income											
Currency translation	–	–	–	–	–	(2)	–	–	(2)	(2)	(4)
Total comprehensive income	–	–	–	–	–	(2)	–	(50,136)	(50,138)	(3,586)	(53,724)
At 31 December 2009 and 1 January 2010	5,513	44,511	(327)	5,848	3,537	72	–	(82,495)	(23,341)	16,470	(6,871)
Issue of shares (note 36)	612	481,588	–	–	–	–	–	–	482,200	–	482,200
Shares issued under share option scheme	1	1,635	–	–	(196)	–	–	–	1,440	–	1,440
Forfeiture of share options	–	–	–	–	(972)	–	–	972	–	–	-
Equity-settled share-based transactions (note 37)	-	–	–	–	315,403	–	–	–	315,403	–	315,403
Arising from loans from ultimate holding company (note 32)	–	–	–	26,336	–	–	–	–	26,336	–	26,336
Issue of convertible bonds	–	–	–	–	–	–	363,304	–	363,304	–	363,304
Arising from acquisition of subsidiaries (note 43)	-	–	–	–	–	–	–	–	–	448,465	448,465
Capital contribution from non-controlling interest	–	–	–	–	–	–	–	–	–	10	10
Transactions with owners	613	483,223	–	26,336	314,235	–	363,304	972	1,188,683	448,475	1,637,158
Loss for the year	–	–	–	–	–	–	–	(445,650)	(445,650)	(3,863)	(449,513)
Other comprehensive income											
Currency translation	–	–	–	–	–	67,064	–	–	67,064	34,506	101,570
Total comprehensive income	–	–	–	–	–	67,064	–	(445,650)	(378,586)	30,643	(347,943)
At 31 December 2010	6,126	527,734	(327)	32,184	317,772	67,136	363,304	(527,173)	786,756	495,588	1,282,344

* The aggregate amount of these balances of HK$780,630,000 (2009: HK$28,854,000 in deficit) is included as reserves in the consolidated statement of financial position.

1. GENERAL INFORMATION

Honbridge Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands. The address of the Company's registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands and the Company's principal place of business is Suite 2703, 27th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 18. The Company and its subsidiaries are collectively referred to as the "Group" hereinafter. The directors of the Company (the "Directors") consider the ultimate holding company to be Hong Bridge Capital Limited ("Hong Bridge"), a company incorporated in the British Virgin Islands with limited liability. Other than the acquisition of the subsidiary, namely Hill Talent Limited, as described in note 43, there were no changes in the Group's operations during the year.

The financial statements on pages 26 to 95 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as described in note 3. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The financial statements are presented in Hong Kong Dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000"), except when otherwise indicated.

2. ADOPTION OF NEW OR AMENDED HKFRSS

In the current year, the Group have applied for the first time the following new standards, amendments and interpretations (the "New HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2010 :

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentations of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause

Other than as noted below, the adoption of the New HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

For the year ended 31 December 2010

2. ADOPTION OF NEW OR AMENDED HKFRSS – CONTINUED

HKFRS 3 (Revised) – Business Combinations and HKAS 27 (Revised) – Consolidated and Separate Financial Statements

The revised accounting policies are described in note 3, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The revised standard is applied prospectively according to the transitional provisions and there is no impact on the business combinations occurred prior to 1 January 2010. The Group has accounted for the acquisition of Hill Talent Limited in current year according to the revised standard, details of which are set out in note 43. However, the impact of the revised standard on the Group's financial statements in relation to the acquisition of Hill Talent Limited is not material.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has had no impact on the current year because the new policies are applied prospectively according to the transitional provisions in the revised standard and the Group did not have such transactions in 2010.

New or amended HKFRSs that have been issued but are not yet effective

At the date of approval of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group for the year ended 31 December 2010.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 [2&3]
Amendments to HKAS 32	Classification of Rights Issues [1]
Amendments to HK(IFRIC) –Interpretation 14	Prepayments of a Minimum Funding Requirement [3]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments [2]
HKAS 24 (Revised)	Related Party Disclosures [3]
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets [4]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets [5]
HKFRS 9	Financial Instruments [6]

Notes :

1 Effective for annual periods beginning on or after 1 February 2010

2 Effective for annual periods beginning on or after 1 July 2010

3 Effective for annual periods beginning on or after 1 January 2011

4 Effective for annual periods beginning on or after 1 July 2011

5 Effective for annual periods beginning on or after 1 January 2012

6 Effective for annual periods beginning on or after 1 January 2013

HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

2. ADOPTION OF NEW OR AMENDED HKFRSS – CONTINUED

HKFRS 9 Financial instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group is in the process of making an assessment of the potential impact of these new or amended HKFRSs that have been issued but are not yet effective and the Directors so far concluded that the application of these or amended HKFRSs will have no material impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared under historical cost convention except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Business combination and basis of consideration

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where 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.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.2 Business combination and basis of consideration – continued

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Business combination prior to 1 January 2010

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.2 Business combination and basis of consideration – continued

Business combination prior to 1 January 2010 – continued

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group are recognised profit or loss. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary.

3.3 Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

3.4 Foreign currency translation

The financial statements are presented in HK$, which is also the functional currency of the Company.

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.4 Foreign currency translation – continued

When a foreign operation is disposed of, such exchange differences are reclassified from equity to profit or loss as part of the disposal gain or loss .

3.5 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of value added tax ("VAT"), and rendering of services, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

- Sale of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

- Sale of magazines is recognised when the magazines are delivered and title has passed, with advance subscription fee received from subscribers recorded as receipts in advance.

- Advertising income is recognised on the date of the relevant publication issue or on time basis by reference to the period in which the advertisement is published.

- Promotion and marketing income is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

- Interest income is recognised on a time-proportion basis using the effective interest method.

3.6 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at acquisition cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use.

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

Leasehold buildings	5% or over the lease term, whichever is shorter
Leasehold improvements	20% or over the lease term, whichever is shorter
Plant and machinery	10% to 20%
Furniture and office equipment	20%
Motor vehicles	20%

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

CIP represents leasehold buildings, plant and machinery under construction and is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. CIP is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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

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

3.8 Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent upfront payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

3.9 Exploration and evaluation assets

Exploration and evaluation assets acquired in a business combination are initially recognised at fair value and subsequently stated at cost less accumulated impairment losses.

Exploration and evaluation assets include topographical and geological surveys, exploratory drillings, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure incurred prior to obtaining the legal rights to explore an area is written off as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.9 Exploration and evaluation assets – continued

When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to tangible and intangible assets according to the nature of the exploration and evaluation assets. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets thereon will be written off to profit or loss.

3.10 Impairment of non-financial assets (other than goodwill)

Property, plant and equipment, exploration and evaluation assets, payments for leasehold land held for own use under operating leases and investments in subsidiaries are subject to impairment testing. They are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

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

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

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

3.11 Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.

Financial assets at fair value through profit or loss

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

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.11 Financial assets – continued

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include :

– Significant financial difficulty of the debtor;

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

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

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

If any such evidence exists, the impairment loss is measured and recognised.

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.11 Financial assets – continued

Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

3.12 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average basis, and in case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

3.13 Cash and cash equivalents

For the purposes of the statements of financial position and the consolidated statement of cash flows, cash and cash equivalents include cash at bank and in hand.

3.14 Share capital

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

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

3.15 Leasing

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

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.16 Financial liabilities

The Group's financial liabilities include trade payables, other payables, borrowings, convertible bonds, loans from ultimate holding company, loan from a minority equity holder of a subsidiary, convertible bonds and amounts due to subsidiaries. They are included in line items in the statement of financial position as "Trade payables", "Other payables, accrued expenses and receipts in advance", "Borrowings", "Convertible bonds", "Loans from ultimate holding company", "Loan from a minority equity holder of a subsidiary" and "Amounts due to subsidiaries".

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

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

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

Financial liabilities at amortised cost

Borrowings, loan from a minority equity holder of a subsidiary, loans from ultimate holding company and amounts due to subsidiaries are recognised initially at fair value, net of transaction costs incurred and subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss/other reserve over the respective period of borrowings/ loan from a minority equity holder of a subsidiary and loans from ultimate holding company using the effective interest method.

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

Notes to the Financial Statements

For the year ended 31 December 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.16 Financial liabilities – continued

Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

Convertible bond issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar nonconvertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, representing the call option for conversion of the bond into equity, is included in equity as convertible bonds equity reserve.

The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the bond.

When the bond is converted, the convertible bonds equity reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bonds equity reserve is released directly to accumulated losses.

Trade and other payables

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

3.17 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.17 Accounting for income taxes – continued

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

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

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

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

Current tax assets and current tax liabilities are presented in net if, and only if, the Group has the legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if, the entity has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either :

(i) the same taxable entity; or

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.18 Retirement benefit costs and short-term employee benefits

Retirement benefits to employees are provided through several defined contribution plans. Details of the retirement benefits schemes are set out in note 41.

Defined contribution plan

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

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

The Group contributes to a defined contribution retirement benefit scheme ("MPF scheme") under the Mandatory Provident Fund Scheme Ordinance which is available to its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as percentages of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the MPF scheme.

The assets of the MPF Scheme are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the People's Republic of China (the "PRC ") government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the Group is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Group. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to profit or loss as incurred. There were no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Short-term employee benefits

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.19 Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

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

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

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the vested share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to accumulated losses.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.20 Research and development costs

Cost associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to the development phase are recognised as intangible assets provided they meet the following recognition requirements :

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

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

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated product developments are recognised as intangible assets. They are subject to the same subsequent measurement method as externally acquired intangible assets.

All other development costs are expensed as incurred.

3.21 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

3.22 Provisions and contingent liabilities

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.22 Provisions and contingent liabilities – continued

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

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. These are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3.23 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to executive directors are determined following the Group's major product and service lines. Each of operating segments is managed separately as each of the product and service lines requires different resources.

The Group has identified the following reportable segments :

(i) "Mineral resources exploration" segment involves research and exploration of mineral resources.

(ii) "Silicon products" segment involves production and sale of silicon products; and

(iii) "Publications" segment involves the publishing, advertising, promotional and marketing services.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that corporate income and expenses which are not included in arriving at the operating results of the operating segment, which primarily applies to the Group's headquarter.

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

3.24 Related parties

A party is considered to be related to the Group if :

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the Group;

Notes to the Financial Statements

For the year ended 31 December 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.24 Related parties – continued

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.6. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

(ii) Impairment of non-financial assets (other than goodwill and exploration and evaluation assets)

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of non-financial assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the Directors take into consideration assumptions that are mainly based on market conditions existing at the reporting dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

(iii) Net realisable value of inventories

These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the reporting date.

(iv) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of the customers/debtors, likelihood of repayments and current market conditions. When the Group's management determines that there are indicators of significant financial difficulties of the trade customers/debtors such as default or delinquency in payments or other events leading to non-repayments, impairment of receivables are estimated. The Group's management reassesses the impairment of receivables at the reporting dates.

When the Group's management determines the receivables are uncollectible, they are written off against the impairment provision of receivables.

(v) Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises the prepaid land lease payments in accordance with the accounting policies stated in notes 3.7 and 3.8 respectively. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the assets.

(vi) Impairment of intangible assets – "exploration and evaluation assets"

The carrying value of exploration and evaluation assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Directors consider all facts and circumstances occurred to judge whether these facts and circumstances would suggest that the carrying amount of the exploration and evaluation assets may exceed its recoverable amount (i.e. impaired). Based on the judgement of the Directors, there was no impairment on the exploration and evaluation assets and no impairment loss is recognised during the year Management reassesses the impairment of intangible assets at the reporting dates.

(vii) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees/consultants by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 37.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

(viii) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(ix) Contractual obligation of a financial liability

When a financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial assets, an obligation may be established indirectly through the instrument's terms and conditions. The Group determined the convertible bonds issued contained a liability component on the basis that on settlement, the Group will deliver either cash or another financial asset, or its own shares whose value is determined to exceed substantially the value of the cash or other financial assets. Although the Group does not have an explicit obligation to deliver cash or another financial asset, the holder of the asset has in substance been guaranteed a minimum amount equal to at least the cash/other financial asset settlement amount.

5. REVENUE

Revenue, which is also the Group's turnover, represents total invoiced value of goods supplied and income from provision of services. Revenue recognised during the year is as follows :

	2010	2009
	HK$'000	HK$'000
Sale of silicon products	**49,785**	10,079
Sale of magazines	**2,724**	2,673
Advertising income	**8,809**	9,279
Promotion and marketing income	**12,213**	10,561
	73,531	32,592

A further analysis of the Group's revenue by activity is set out in note 6 to the financial statements.

6. SEGMENT INFORMATION

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

The Group's operating businesses are organised and managed separately according to the nature of product and service, with each segment representing a strategic business segment that offers different products and services in Hong Kong, Mainland China and Brazil.

The Company is an investment holding company and the principal place of the Group's operation are in Hong Kong, Mainland China and Brazil. For the purpose of segment information disclosures under HKFRS 8, the Group regarded service in Hong Kong, and Mainland China (i.e. the PRC) as its country of domicile.

6. SEGMENT INFORMATION – CONTINUED

Information regarding the Group's reportable segments provided to the Group's most senior management (i.e. the executive directors) is set out below :

	Mineral resources exploration HK$'000	Silicon products HK$'000	Publications HK$'000	Total HK$'000
Year ended 31 December 2010				
Reportable segment revenue (external customers)	**–**	**49,785**	**23,746**	**73,531**
Reportable segment loss	**(3,970)**	**(6,322)**	**(1,640)**	**(11,932)**
Reportable segment assets	**2,166,563**	**80,111**	**6,921**	**2,253,595**
Reportable segment liabilities	**545**	**42,678**	**9,248**	**52,471**
Capital expenditure	**–**	**3,419**	**4**	**3,423**
Interest income	**–**	**(21)**	**–**	**(21)**
Interest expense	**–**	**973**	**–**	**973**
Depreciation	**48**	**1,103**	**90**	**1,241**
Amortisation charge	**–**	**454**	**–**	**454**
Impairment and written off of receivables	**–**	**–**	**199**	**199**
Year ended 31 December 2009				
Reportable segment revenue (external customers)	–	10,079	22,513	32,592
Reportable segment loss	–	(44,648)	(1,021)	(45,669)
Reportable segment assets	–	84,277	7,601	91,878
Reportable segment liabilities	–	42,901	8,291	51,192
Capital expenditure	–	5,549	22	5,571
Interest income	–	(125)	–	(125)
Interest expense	–	1,070	–	1,070
Depreciation	–	2,422	88	2,510
Amortisation charge	–	445	–	445
Impairment of goodwill	–	35,686	–	35,686
Impairment and written off of receivables	–	–	198	198
Reversal of impairment of inventories	–	(810)	–	(810)

Notes to the Financial Statements

For the year ended 31 December 2010

6. SEGMENT INFORMATION – CONTINUED

Reportable segment revenue represented turnover of the Group. The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows :

	2010 **HK$'000**	2009 HK$'000
Reportable segment loss	**(11,932)**	(45,669)
Other operating income	**4,051**	100
Administrative expenses	**(16,420)**	(5,303)
Other operating expenses	**(43,905)**	–
Share-based payment expenses	**(349,883)**	–
Finance costs	**(31,424)**	(2,848)
	(449,513)	(53,720)
Reportable segment assets	**2,253,595**	91,878
Property, plant and equipment	**408**	623
Deposit for acquisition of a business	**78,000**	–
Advances to an acquiring business	**141,503**	–
Prepayments and other receivables	**1,529**	596
Derivative financial assets	**44,354**	–
Cash and cash equivalents	**9,881**	1,107
	2,529,270	94,204
Reportable segment liabilities	**52,471**	51,192
Other payables, accrued expenses and receipts in advance	**1,687**	857
Convertible bonds	**189,333**	–
Loans from ultimate holding company	**283,851**	49,026
Deferred tax liabilities	**719,584**	–
	1,246,926	101,075

6. SEGMENT INFORMATION – CONTINUED

The Group's revenues from external customers and its non-current assets are divided into the following geographical areas :

	2010 **HK$'000**	2009 HK$'000
Revenues from external customers		
Hong Kong	**23,746**	22,513
Mainland China	**49,785**	10,079
Reportable segment revenue from external customers	**73,531**	32,592
Non-current assets		
Hong Kong	**172**	2,962
Mainland China	**56,885**	50,756
Brazil	**2,149,543**	–
Reportable segment non-current assets	**2,206,600**	53,718

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets (other than goodwill) is determined based on the physical location of the asset. In case of goodwill, it is determined based on the location of operations.

7. OTHER OPERATING INCOME

	2010 **HK$'000**	2009 HK$'000
Bank Interest income	**21**	125
Imputed interest on advances to an acquiring business	**4,049**	–
Sundry income	**252**	217
	4,322	342

Notes to the Financial Statements

For the year ended 31 December 2010

8. OPERATING LOSS

	2010 HK$'000	2009 HK$'000
Operating loss is arrived at after charging :		
Auditors' remuneration	**800**	480
Cost of inventories recognised as expense	**50,393**	7,631
Share-based payment expenses	**349,883**	–
Depreciation	**1,461**	2,730
Amortisation of prepaid land lease payments	**454**	445
Minimum lease payments paid under operating leases in respect of rental premises	**329**	329
Net foreign exchange loss	**29**	–
– Impairment and write-off of receivables	**199**	198
– Fair value loss on initial recognition of advances to an acquiring business	**13,115**	–
– Research and development costs	**940**	3,111
– Transaction costs of business combination (note 43)	**1,911**	–
– Fair value loss on derivative financial assets (note 34)	**28,879**	–
– Others	**40**	–
Other operating expenses	**45,084**	3,309

9. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest charges on other borrowings wholly repayable within five years	**677**	1,011
Imputed interest on convertible bonds	**24,063**	699
Imputed interest on loans from ultimate holding company	**7,361**	2,149
Imputed interest on loan from a minority equity holder of a subsidiary	**296**	59
	32,397	3,918

10. INCOME TAX EXPENSE

During the year ended 31 December 2010 and 31 December 2009, no provision for Hong Kong profits tax has been provided by the Group as the Group had no estimated assessable profit arising in or derived from Hong Kong.

Taxation on profits assessable elsewhere have been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during both years.

With the effect of the PRC enterprise income tax on 1 January 2008, enterprise income tax rates for domestic and foreign enterprises were unified at 25%. Upon expiry of the tax holiday and tax relief, the new PRC corporate income tax rate of 25% is applicable to 濟寧凱倫光伏材料有限公司 ("Kailun PV (Jining)"), being a subsidiary of the Group established as wholly foreign-owned enterprise in the PRC.

10. INCOME TAX EXPENSE – CONTINUED

During the year ended 31 December 2010, the corporate income tax rate in Brazil of 34% is applicable to Xianglan Do Brasil Mineracao Ltda ("Xianglan Brazil"), which is one of the subsidiaries being acquired by the Group during the year.

No provision for tax has been provided by the Company as the Company had no estimated assessable profit arising in or derived from Hong Kong (2009: Nil).

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

	2010 **HK$'000**	2009 HK$'000
Loss before income tax	**(449,513)**	(53,720)
Tax on loss before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(74,170)**	(9,619)
Tax effect of different tax rates of subsidiaries	**(1,205)**	–
Tax effect of non-deductible expenses	**74,800**	11,126
Tax effect of non-taxable revenue	**(1,076)**	(2,520)
Tax effect of prior year's unrecognised tax losses utilised this year	**(5)**	–
Tax effect of unrecognised tax losses	**1,613**	976
Tax effect on temporary difference not recognised	**43**	37
Income tax expense	**–**	–

11. LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Of the consolidated loss attributable to the owners of the Company of HK$445,650,000 (2009: HK$50,136,000), a loss of HK$437,549,000 (2009: HK$53,551,000) (note 38) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$445,650,000 (2009: HK$50,136,000) and on the weighted average of approximately 5,981,678,000 (2009: 4,149,487,000) ordinary shares in issue and issuable during the year.

(b) Dilutive loss per share

For the year ended 31 December 2010 and 2009, diluted per share amount was not presented because the impact of the exercise of the share options and convertible bonds was anti-dilutive.

Notes to the Financial Statements

For the year ended 31 December 2010

13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2010	2009
	HK$'000	HK$'000
Wages and salaries	**17,402**	11,334
Share-based payments	**45,990**	–
Pension costs – defined contribution plans	**732**	501
	64,124	11,835

Included in staff costs are key management personnel compensation and comprises the following categories :

	2010	2009
	HK$'000	HK$'000
Short-term employee benefits	**1,870**	2,360
Post-employment benefits	**24**	36
Share-based payments	**37,453**	–
	39,347	2,396

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	Fees HK$'000	Salaries and allowances HK$'000	Contribution to defined contribution plan HK$'000	Equity-settled share-based payment expenses HK$'000	Total HK$'000
Year ended 31 December 2010					
Executive directors					
HE Xuechu	**378**	**–**	**12**	**–**	**390**
LIU Wei, William	**612**	**–**	**12**	**10,804**	**11,428**
SHI Lixin	**–**	**520**	**–**	**7,203**	**7,723**
Non-executive directors					
YAN Weimin *	**–**	**–**	**–**	**10,804**	**10,804**
ANG Siu Lun, Lawrence #	**–**	**–**	**–**	**5,402**	**5,402**
Independent non-executive directors					
CHAN Chun Wai, Tony	**120**	**–**	**–**	**1,080**	**1,200**
FOK Hon	**120**	**–**	**–**	**1,080**	**1,200**
MA Gang	**120**	**–**	**–**	**1,080**	**1,200**
	1,350	**520**	**24**	**37,453**	**39,347**
Year ended 31 December 2009					
Executive directors					
HE Xuechu	403	–	12	–	415
LIU Wei, William	629	–	12	–	641
SHI Lixin	–	537	–	–	537
Independent non-executive directors					
CHAN Chun Wai, Tony	120	–	–	–	120
FOK Hon	120	–	–	–	120
MA Gang	120	–	–	–	120
	1,392	537	24	–	1,953

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

* Appointed on 20 April 2010

\# Appointed on 5 May 2010

Notes to the Financial Statements

For the year ended 31 December 2010

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS – CONTINUED

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2009: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2009: three) individuals during the year are as follows :

	2010 **HK$'000**	2009 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,276**	2,155
Pension - defined contribution plans	**36**	36
	2,312	2,191

The emoluments fell within the following band :

	Number of individuals	
	2010	2009
Emolument band		
Nil – HK$1,000,000	**3**	3

During the year, no emoluments were paid by the Group to the directors or the three (2009: three) highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2009							
Cost	8,565	898	11,928	857	805	11,177	34,230
Accumulated depreciation	(591)	(217)	(5,950)	(177)	(117)	–	(7,052)
Net book amount	7,974	681	5,978	680	688	11,177	27,178
Year ended 31 December 2009							
Opening net book amount	7,974	681	5,978	680	688	11,177	27,178
Additions	–	26	890	58	–	7,676	8,650
Depreciation	(430)	(185)	(1,703)	(213)	(199)	–	(2,730)
Exchange realignment	–	–	1	–	–	(5)	(4)
Closing net book amount	7,544	522	5,166	525	489	18,848	33,094
At 31 December 2009							
Cost	8,565	924	12,818	915	805	18,848	42,875
Accumulated depreciation and impairment	(1,021)	(402)	(7,652)	(390)	(316)	–	(9,781)
Net book amount	7,544	522	5,166	525	489	18,848	33,094
Year ended 31 December 2010							
Opening net book amount	**7,544**	**522**	**5,166**	**525**	**489**	**18,848**	**33,094**
Additions	**–**	**–**	**882**	**775**	**12**	**1,754**	**3,423**
Acquisition of subsidiaries (note 43)	**–**	**–**	**–**	**33**	**256**	**–**	**289**
Depreciation	**(376)**	**(185)**	**(532)**	**(203)**	**(165)**	**–**	**(1,461)**
Exchange realignment	**268**	**–**	**195**	**20**	**33**	**716**	**1,232**
Closing net book amount	**7,436**	**337**	**5,711**	**1,150**	**625**	**21,318**	**36,577**
At 31 December 2010							
Cost	**8,876**	**924**	**14,181**	**1,750**	**1,120**	**21,318**	**48,169**
Accumulated depreciation and impairment	**(1,440)**	**(587)**	**(8,470)**	**(600)**	**(495)**	**–**	**(11,592)**
Net book amount	**7,436**	**337**	**5,711**	**1,150**	**625**	**21,318**	**36,577**

Note :

As at 31 December 2010 and 2009, the building ownership certificates of the Group's leasehold buildings have not yet been obtained. The land use rights certificates where these buildings are situated have already been obtained and have been included in the prepaid land lease payments (note 17). In the opinion of the independent PRC legal advisors of Kailun PV (Jining), Kailun PV (Jining) is entitled to obtain the building ownerships certificates without legal impediment and is entitled to lawfully and validly use the buildings during the year.

Notes to the Financial Statements

For the year ended 31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

COMPANY

	Leasehold improvements HK$'000	Furniture and office equipment HK$'000	Total HK$'000
At 1 January 2009			
Cost	898	176	1,074
Accumulated depreciation	(217)	(40)	(257)
Net book amount	681	136	817
Year ended 31 December 2009			
Opening net book amount	681	136	817
Additions	26	–	26
Depreciation	(185)	(35)	(220)
Closing net book amount	522	101	623
At 31 December 2009			
Cost	924	176	1,100
Accumulated depreciation	(402)	(75)	(477)
Net book amount	522	101	623
Year ended 31 December 2010			
Opening net book amount	**522**	**101**	**623**
Additions	**–**	**5**	**5**
Depreciation	**(185)**	**(35)**	**(220)**
Closing net book amount	**337**	**71**	**408**
At 31 December 2010			
Cost	**924**	**181**	**1,105**
Accumulated depreciation	**(587)**	**(110)**	**(697)**
Net book amount	**337**	**71**	**408**

16. EXPLORATION AND EVALUATION ASSETS

GROUP

	HK$'000
Cost	
At 1 January 2009 and 31 December 2009	–
Acquisition of subsidiaries (note 43)	1,969,118
Exchange realignment	145,267
At 31 December 2010	**2,114,385**

The exploration and evaluation assets represented the rights to explore and identify prospective deposits of mineral resources in the Bahia State of Brazil and the expenditures incurred in the search for mineral resources.

Details of exploration licenses owned by Xianglan Brazil at 31 December 2010 are as follows:

License number :	DNPM-872.734/2006	DNPM-872.958/2006	DNPM-870.140/2007
Location :	State of Bahia, Brazil	State of Bahia, Brazil	State of Bahia, Brazil
Valid until :	23 March 2013	23 March 2013	23 March 2013
Area :	20 km^2	20 km^2	18 km^2

Under Brazilian mining rules and regulations, extensions of the above exploration licenses after the expiry may be granted, subject to the discretion of Departamento Nocional de Producao Mineral, which is the National Department of Mineral Production under the Ministry of Mines and Energy in Brazil. The Directors, with reference to the legal advice, are of the opinion and confident that if the extension requests are filed in observance with the regulatory requirements, there is no reason to believe that such extensions will not be granted.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. In the opinion of the Directors, there was no indication that the exploration and evaluation assets have been impaired as at 31 December 2010.

Notes to the Financial Statements

For the year ended 31 December 2010

17. PREPAID LAND LEASE PAYMENTS

GROUP

	2010 HK$'000	2009 HK$'000
At 1 January		
Cost	**21,545**	21,545
Accumulated amortisation	**(705)**	(260)
Net book amount	**20,840**	21,285
For the year ended 31 December		
Opening net book amount	**20,840**	21,285
Amortisation	**(454)**	(445)
Exchange realignment	**750**	–
Net book amount	**21,136**	20,840
At 31 December		
Cost	**22,329**	21,545
Accumulated amortisation	**(1,193)**	(705)
Net book amount	**21,136**	20,840

The prepaid land lease payments represented up-front payments to acquire long-term interest in the usage of land situated in the PRC, which are held under medium term leases.

18. INVESTMENTS IN SUBSIDIARIES

COMPANY

	2010 HK$'000	2009 HK$'000
Unlisted shares, at cost	**987,867**	84,807
Less : Impairment loss recognised	**(50,500)**	(50,500)
	937,367	34,307

18. INVESTMENTS IN SUBSIDIARIES – CONTINUED

Particulars of the principal subsidiaries at 31 December 2010 are as follows :

Name of subsidiary	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Divine Mission Holdings Limited ("Divine Mission')	British Virgin Islands, limited liability company	20,000 ordinary shares of US$1 each	60%	–	Investment holding
Kailun Photovoltaic Materials Investments Limited	Hong Kong, limited liability company	10,000,000 ordinary shares of HK$1 each	–	60%	Investment holding
Kailun PV (Jining)	PRC, limited liability company	Registered capital of US$10,000,000	–	60%	Production and sale of silicon products
Honbridge Management Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	–	100%	Provision of employee and personnel services and holding of a lease agreement
Jessicacode Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	–	100%	Publication of "旭茉 JESSICACODE" magazine
Superb Taste Company Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	–	100%	Publication of "味道 LISA" magazine
Xianglan Do Brasil Mineracao Ltda ("Xianglan Brazil")	Brazil, limited liability company	5,738,140 ordinary shares of BRL 1 each	–	66%	Research and exploration of mineral resources (Manganese)

The financial statements of the above subsidiaries are examined by BDO Limited or other member firm of BDO global network for statutory purpose or Group consolidation purpose.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

19. GOODWILL

GROUP

The amount of the goodwill capitalised as an asset recognised in the consolidated statement of financial position, arising from business combinations, is as follows :

	2010 HK$'000	2009 HK$'000
At 1 January		
Gross carrying amount	**35,686**	35,686
Accumulated impairment	**(35,686)**	–
Net carrying amount	**–**	35,686
Carrying amount at 1 January	**–**	35,686
Acquisition of subsidiaries (note 43)	**32,511**	–
Impairment losses	**–**	(35,686)
Exchange realignment	**2,399**	–
Net carrying amount at 31 December	**34,910**	–
At 31 December		
Gross carrying amount	**70,596**	35,686
Accumulated impairment	**(35,686)**	(35,686)
Net carrying amount	**34,910**	–

The goodwill allocated to cash generating unit of silicon product was fully impaired during the year ended 31 December 2009. The carrying amount of goodwill at 31 December 2010, represents goodwill arising from acquisition of Xianglan Brasil Group (note 43) and is allocated to the cash generating unit of mineral resources exploration.

The calculation of the recoverable amounts for the cash generating units given above were determined based on value-in-use calculations, covering a detailed budget plan, followed by an extrapolation of expected cash flows at the growth rates stated below. For silicon products, the growth rates reflect the long term average growth rates for the product line. For mineral resources exploration, the growth rates reflect the expected selling prices, production and sale volume of mineral resources based on historical data and future market analysis.

The key assumptions used in the budget plan estimated by the Group's management are :

	Silicon products	**Mineral resources exploration**
Growth rate	10%	9%
Discount rate	11%	17%

19. GOODWILL – CONTINUED

GROUP

The Group's management's key assumptions for the Group include stable profits margin, have been determined based on past performance and its expectations for the market share after taking into consideration published market forecast and research. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Apart from the considerations described in determining the value-in-use of the cash generating units above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its estimates.

20. DEPOSITS FOR ACQUISITION OF BUSINESS

GROUP

On 5 March 2010, Infinite Sky Investments Limited ("Infinite Sky"), a wholly-owned subsidiary of the Company, entered into the share purchase agreement (the "Agreement") to acquire the entire issued share capital of Sul Americana de Metais S.A ("SAM") in Brazil (the "SAM Acquisition") with a total consideration of US$390 million (equivalent to approximately HK$3,042 million) (the "Total Consideration"). Further details of the Total Consideration are set out in note 40.

At 31 December 2010, in connection with the SAM Acquisition, Infinite Sky had deposited with an escrow agent US$10 million (equivalent to approximately HK$78 million), together with any interest or other income accrued or earned thereon, the "(Escrow Property"). The Escrow Property would be refunded to Infinite Sky if certain conditions for the completion of the SAM Acquisition are not met and the Agreement is terminated pursuant to certain conditions for termination and refund in the Agreement.

21. ADVANCES TO AN ACQUIRING BUSINESS

GROUP AND COMPANY

This represented advances to SAM which are unsecured and interest-free. When the SAM Acquisition is completed and SAM becomes the subsidiary of the Company, such advances will become an inter-company balances of the Company. The advances shall be used exclusively for the purposes of conducting the mineral resources exploration work by SAM.

22. DEPOSITS

GROUP

The amounts represented the Group's deposits paid for the acquisition of property, plant and equipment as at 31 December 2009.

Notes to the Financial Statements

For the year ended 31 December 2010

23. INVENTORIES

GROUP

	2010 HK$'000	2009 HK$'000
Raw materials	**3,308**	5,765
Finished goods	**5,378**	259
	8,686	6,024

For the year ended 31 December 2009, reversal of the inventories impairment loss of HK$810,000 was included in the consolidated statement of comprehensive income because the amount of silicon products for sale was recovered.

24. TRADE AND BILL RECEIVABLES

GROUP

	2010 HK$'000	2009 HK$'000
Trade receivables	**8,826**	5,516
Less : Impairment of trade receivables	**(752)**	(553)
Trade receivables, net	**8,074**	4,963
Bill receivables	**–**	2,166
Trade and bill receivables, net	**8,074**	7,129

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. Movement in the provision for impairment of trade receivables is as follows :

	2010 HK$'000	2009 HK$'000
At 1 January	**553**	355
Impairment loss and allowances charged to profit or loss	**199**	198
At 31 December	**752**	553

As at 31 December 2010 and 2009, the Group's trade and bill receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised. The Group does not hold any collateral over these balances.

24. TRADE AND BILL RECEIVABLES – CONTINUED

GROUP

The Group allows a credit period from 30 days to 120 days to its trade customers. The following is aging analysis of net trade and bill receivables at the reporting date :

	2010 HK$'000	2009 HK$'000
0 - 30 days	**5,550**	3,883
31 - 60 days	**1,087**	1,733
61 - 90 days	**305**	1,235
91 to 180 days	**616**	198
Over 180 days	**516**	80
	8,074	7,129

Aging analysis of trade and bill receivables that were past due as at the reporting date but not impaired, based on the due date is as follows :

	2010 HK$'000	2009 HK$'000
Neither past due nor impaired	**3,004**	3,395
1 – 90 days past due	**3,938**	3,468
91 – 180 days past due	**616**	186
Over 180 days past due	**516**	80
	5,070	3,734
	8,074	7,129

Trade and bill receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Trade and bill receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not be a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Notes to the Financial Statements

For the year ended 31 December 2010

25. PREPAYENTS AND OTHER RECEIVABLES

GROUP

	2010 HK$'000	2009 HK$'000
Deposits	**129**	163
Prepayments	**5,500**	3,709
Other receivables	**5,970**	6,598
	11,599	10,470

COMPANY

	2010 HK$'000	2009 HK$'000
Prepayments	**–**	394
Other receivables	**1,529**	202
	1,529	596

Other receivables of the Company and of the Group that were neither past due nor impaired related to a wide range of debtors for whom there was no recent history of default.

26. DERIVATIVE FINANCIAL ASSETS

GROUP AND COMPANY

	2010 HK$'000	2009 HK$'000
Embedded derivatives in convertible bonds (note 34)	**44,354**	–

The derivative financial assets are reported at their fair values and determined by the Directors with reference to the valuation performed by an independent firm of professional valuers on Trinomial option pricing model basis .

27. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

COMPANY

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

28. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at banks and in hand.

Cash at bank earns interest at floating rates based on the daily bank deposit rates.

As at 31 December 2010, the Group had cash and bank balances denominated in Renminbi ("RMB") amounting to approximately HK$11,330,000 (2009: HK$13,296,000), which were deposited with the banks in the PRC and held in hand. RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

29. TRADE PAYABLES

GROUP

The credit terms of trade payables vary according to the terms agreed with different suppliers. The following is aging analysis of trade payables at the reporting date :

	2010 **HK$'000**	2009 HK$'000
0 - 30 days	**2,938**	1,247
31 - 60 days	**743**	683
61 - 90 days	**605**	512
91 - 180 days	**762**	1,767
Over 180 days	**3,158**	4,336
	8,206	8,545

30. OTHER PAYABLES, ACCRUED EXPENSES AND RECEIPTS IN ADVANCE

GROUP

	2010 **HK$'000**	2009 HK$'000
Other payables	**20,889**	19,689
Accrued expenses	**3,571**	2,040
Receipts in advance	**3,849**	177
	28,309	21,906

Notes to the Financial Statements

For the year ended 31 December 2010

30. OTHER PAYABLES, ACCRUED EXPENSES AND RECEIPTS IN ADVANCE – CONTINUED

COMPANY

	2010 HK$'000	2009 HK$'000
Accrued expenses	**1,687**	857

31. BORROWINGS

GROUP

	Notes	Original currency	**2010 HK$'000**	2009 HK$'000
Non-current				
Government loans – unsecured	(i)	RMB	**266**	597
Current				
Government loans – unsecured	(i)	RMB	**2,202**	1,784
Bank loans – unsecured	(ii)	RMB	**5,876**	5,670
Other loans – unsecured	(iii)	RMB	**3,070**	6,921
			11,148	14,375
Total borrowings			**11,414**	14,972

At 31 December 2010, the Group's borrowings were repayable as follows :

	2010 HK$'000	2009 HK$'000
Government loans repayable :		
Within one year or on demand	**2,202**	1,784
In the second year	**266**	340
In the third to fifth years, inclusive	**–**	257
	2,468	2,381
Bank loans repayable :		
Within one year or on demand	**5,876**	5,670
Other loans repayable :		
Within one year or on demand	**3,070**	6,921

31. BORROWINGS – CONTINUED

Notes :

(i) Government loans comprise an interest-free loan of HK$1,293,000 (the "Government Interest Free Loan") granted by the local government of the PRC. The local government of the PRC agreed to waive the repayment of the Government Interest Free Loan on the conditions that the projects in the local county satisfies the requirements set by the local government. Other government loans of HK$1,175,000 are unsecured and interest-free.

(ii) Bank loan was guaranteed by 濟寧市天翔機械制造有限公司. The Group has not recognised the financial impact in respect of this guarantee as its fair value cannot reliably measured and no transaction price was recorded. The interest rate of bank loans is 5.75‰ (2009: 5.75 ‰) per month.

(iii) Other loans are unsecured and bear floating interest rate which is based on the monthly interest rate of The People's Bank of China.

(iv) The Group provided guarantee of approximately RMB3,000,000 (approximately HK$3,526,000) to the bank in connection with banking facilities granted by the bank to 濟寧市天翔機械制造有限公司 and no provision for the Group's obligation under the guarantee contract has been made as the directors considered that it was not probable that the repayment of this borrowing would be in default.

In the opinion of the Directors, the carrying values of the current borrowings are considered to be a reasonable approximation of fair values due to their short term maturities.

32. LOANS FROM ULTIMATE HOLDING COMPANY

GROUP AND COMPANY

The loans are unsecured and not repayable within three years from the drawdown dates. The loans are interest-free in the first two years and bear interest at prime rate minus 1.25% per annum in the third year. Hong Bridge does not demand repayment of the loans from the Company with at least 12 months from the financial statements approval date.

The fair value of the liability component, included in the balance, was calculated using a market interest rate. The residual amount, representing the difference arising from at fair value and at the nominal value of the loans from ultimate holding company, is included in equity.

The fair value of the liability component of the balance was calculated using cash flows discounted at a rate based on the estimated discount rate of 5%.

Interest expense on the loans from ultimate holding company is calculated using the effective interest method by applying effective interest rate of 5% to the liability component.

33. LOAN FROM A MINORITY EQUITY HOLDER OF A SUBSIDIARY

GROUP

The loan is unsecured, interest-free and repayable in the amount of HK$6,800,000 on 21 October 2012.

The fair value of the balance was calculated using a market interest rate. The residual amount, representing the difference arising from at fair value and at the nominal value of loan from a minority equity holder of a subsidiary, is included in equity.

The fair value of the balance was calculated using cash flows discounted at a rate based on the estimated discount rate of 5%.

Interest expense on the loan from a minority equity holder of a subsidiary is calculated using the effective interest method by applying effective interest rate of 5%.

34. CONVERTIBLE BONDS

GROUP AND COMPANY

	2010 **HK$'000**	2009 HK$'000
Convertible bonds	**189,333**	–

The convertible bonds were issued on 24 March 2010 and are convertible into ordinary shares of the Company after two years from the date of issue of the bonds and before the maturity date on 23 March 2015. The bonds can be converted into 400,000,000 ordinary shares of the Company per HK$1 bond at par.

The convertible bonds are interest-free and not redeemable by the bond holder but the Company has the sole and absolute discretion on redemption.

The conversion option embedded in the convertible bonds meets the definition of equity instrument of the Company, and therefore it is classified as equity and presented separately from the liability components of the convertible bonds. The other embedded derivative (i.e. the call option of the Company) is separated from host debt because their economic characteristics and risks are not closely related to those of the host debt and is accounted for as financial assets at fair value through profit or loss. The liability component is initially recognised at its fair value and is subsequently measured at amortised cost.

The carrying amount of the convertible bonds was denominated in HK$. At 31 December 2010, the convertible bonds are repayable as follows:

	2010 **HK$'000**	2009 HK$'000
Within one year	**–**	–
In the second to fifth years	**189,333**	–
	189,333	–

The convertible bonds recognised in the statement of financial position are calculated as follows :

	2010 **HK$'000**	2009 HK$'000
Fair value of convertible bond at issue date	**455,341**	–
Fair value of equity component at issue date	**(363,304)**	–
Fair value of call option portion at issue date	**73,233**	–
Fair value of liability component on initial recognition	**165,270**	–
Imputed interest expense (note 9)	**24,063**	–
Liability component at 31 December	**189,333**	–

34. CONVERTIBLE BONDS – CONTINUED

At initial recognition the fair value of the liability component of the convertible bonds was calculated using cash flows discounted at a rate based on the estimated discount rate of 19.34%. The fair values of the equity component and the call option portion of the convertible bonds are determined by the Directors with reference to the valuation performed by an independent firm of professional valuers on Trinomial option pricing model basis.

The fair value movements in the derivative financial assets embedded in the convertible bonds, (i.e. the call option), for the year ended 31 December 2010 are as follows:

	HK$'000
Embedded derivative component at beginning of year	–
On initial recognition	73,233
Fair value loss recognised in profit or loss (note 8)	(28,879)
Embedded derivative component at end of year (note 26)	44,354

Interest expense on the convertible bonds is calculated using the effective interest method by applying effective interest rate of 19.34% to the liability component.

Notes to the Financial Statements

For the year ended 31 December 2010

35. DEFERRED TAX

GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using the tax rates applicable in the tax jurisdiction concerned.

The following are the major deferred tax (assets) and liabilities recognised by the Group and movements thereon during the current and prior reporting years.

	Fair value adjustments arising from exploration and evaluation assets HK$'000	Fair value adjustments arising from prepaid land lease payments HK$'000	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2009	–	693	38	(38)	693
Charge/(credit) to profit or loss	–	–	(37)	37	–
At 31 December 2009 and 1 January 2010		693	1	(1)	693
Charge/(credit) to profit or loss	–	–	(1)	1	–
Acquisition of subsidiaries (note 43)	669,500	–	–	–	669,500
Exchange realignment	49,391	–	–	–	49,391
At 31 December 2010	**718,891**	**693**	**–**	**–**	**719,584**

Deferred tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2009, the Group has unused tax losses of HK$11,325,000 available for offset against future profits and a deferred tax asset has been recognised in respect of HK$6,000 of such losses which were equivalent to the taxable temporary differences relating to accelerated tax depreciation. As at 31 December 2010, the Group has unused tax losses of HK$28,686,000 available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams and there was no taxable temporary difference related to accelerated tax depreciation as at year ended 31 December 2010. This tax loss has no expiry date.

COMPANY

No deferred tax has been provided in the financial statements of the Company as there are no material temporary differences (2009: Nil).

36. SHARE CAPITAL

	Number of shares '000	Total HK$'000
Authorised :		
Ordinary shares of HK$0.001 each at 31 December 2009 and 2010	1,000,000,000	1,000,000
Issued and fully paid :		
At 1 January 2009	3,412,720	3,413
Conversion rights of convertible bonds exercised	2,100,000	2,100
At 31 December 2009 and 1 January 2010	5,512,720	5,513
Consideration shares issued for financial advisory service (note (i))	2,000	2
Consideration shares issued for consultancy and technical support (note (ii))	10,000	10
Exercise of share option under share option scheme 2007(note (iii))	1,200	1
Consideration shares issued for acquisition of business (note (iv))	600,000	600
At 31 December 2010	**6,125,920**	**6,126**

Note :

(i) On 24 November 2010, 2,000,000 ordinary shares were issued as part of the remuneration to CIMB Securities (HK) Limited for the provision of financial advisory services to the Company. The ordinary shares were recorded at market price, HK$3.09, on the date of issue.

(ii) Pursuant to the strategic cooperation agreement in relation to the provision of technical support (the "Strategic Cooperation Agreement") by Xinwen Mining Group Co. ("Xinwen"), an aggregate of 30,000,000 ordinary shares of the Company will be issued to Xinwen in three tranches in each of the years of 2010, 2011 and 2012. Each tranche represents 10,000,000 shares, being consideration for the services provided by Xinwen to the Company. On 1 December 2010, 10,000,000 ordinary shares of the Company have been issued to Xinwen and recorded at market price, HK$2.83 on the date of issue. The remaining 20,000,000 ordinary shares will be unconditionally issued to Xinwen pursuant to the Strategic Cooperation Agreement in 2011 and 2012.

(iii During the year ended 31 December 2010, a total of 1,200,000 share options granted in 2007 were exercised at the exercise price of HK$1.20. The fair value per option granted in 2007 was HK$0.16.

(iv) At 24 March 2010, the Company acquired the entire issued share capital of Hill Talent Limited at a consideration of HK$880,000,000 of which HK$480,000,000 will be satisfied by way of allotment and issue of 600,000,000 the Company's ordinary shares of HK$0.001 each at a price of HK$0.8 per share. Details refer to note 43.

All new ordinary shares issued during the year ended 31 December 2010 have the same rights as other ordinary shares of the Company in issue.

Notes to the Financial Statements

For the year ended 31 December 2010

37. SHARE OPTIONS

(a) Share Option Scheme

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 20 December 2001 and became effective on 8 January 2002 for the primary purpose of providing incentives to directors and eligible employees and will be expired on 7 January 2012. Under the Share Option Scheme, the board of directors of the Company may offer to any director or employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company.

Under the Share Option Scheme, without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the aggregate number of shares in respect of which options may be granted to any individual in any year is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

In order to provide the Company with greater flexibility in granting share options to eligible persons under the Share Option Scheme as incentive or rewards for their contribution to the Group, the board proposed to refresh the scheme mandate limit of the Share Option Scheme.

An extraordinary general meeting of the Company was held on 15 March 2010 and the above refreshment of the scheme mandate limit of the Share Option Scheme was approved by the independent shareholders.

(b) Option Deed

On 25 November 2010, the Company issued share options to Xinwen pursuant to an option deed dated 26 March 2010 (the "Option Deed") and an aggregate of 300,000,000 share options shall be valid and exercisable for 3 years with effective from the date of grant of share options on 25 November 2010.

At 31 December 2010, an aggregate of 445,240,000 (2009: 21,440,000) shares of the Company were issuable pursuant to share options granted under the option schemes, representing approximately 7.3% (2009: 0.4%) of the shares of the Company in issue at that date.

As at 31 December 2010, the total number of shares available for issue pursuant to the grant of further options under the option schemes was 106,148,371 (2009: 319,832,000), representing approximately 1.7% (2009: 5.8%) of the issued share capital of the Company as at 31 December 2010.

At the date of this Annual Report, the Company had 445,240,000 (2009: 20,276,000) share options outstanding under the option schemes, which represented approximately 7.3% (2009:0.4%) of shares of the Company in issue at that date.

The consideration payable on the grant of an option is HK$1 for each grant transaction. Options may be exercised at any time within the exercisable period. The exercise price would be determined by the Board but in any case will not be less than higher of: (1) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a trading day; (2) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer; or (3) the nominal value of a share.

37. SHARE OPTIONS – CONTINUED

The following tables set out the movement in the Share Option Scheme and Option Deed:

Year ended 31 December 2010:

Name or category of participant	Share option type	Outstanding at 1 January 2010	Number of share options Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2010
(a) Share Option Scheme						
Share option for directors and employees						
Directors						
Executive directors						
LIU Wei, William	2007	10,000,000	–	–	–	10,000,000
	2010	–	30,000,000	–	–	30,000,000
SHI Lixin	2007	10,000,000	–	–	–	10,000,000
	2010	–	20,000,000	–	–	20,000,000
Non-executive directors						
Mr. Yan Weimin	2010	–	30,000,000	–	–	30,000,000
Mr. Ang Siu Lun, Lawrence	2010	–	15,000,000	–	–	15,000,000
Independent nonexecutive directors						
Mr. Chan Chun Wai, Tony	2010	–	3,000,000	–	–	3,000,000
Mr. Fok Hon	2010	–	3,000,000	–	–	3,000,000
Mr. Ma Gang	2010	–	3,000,000	–	–	3,000,000
Sub-total		20,000,000	104,000,000	–	–	124,000,000
Employees						
In aggregate	2007	1,200,000	–	(1,200,000)	–	–
	2010	–	23,700,000	–	(2,700,000)	21,000,000
Others						
In aggregate	2002	240,000	–	–	–	240,000
		1,440,000	23,700,000	(1,200,000)	(2,700,000)	21,240,000
Total – Share Option Scheme		21,440,000	127,700,000	(1,200,000)	(2,700,000)	145,240,000
(b) Option Deed						
Share option for the strategic cooperative partner						
Xinwen	2010	–	300,000,000	–	–	300,000,000
Total – Option Deed		–	300,000,000	–	–	300,000,000

Notes to the Financial Statements

For the year ended 31 December 2010

37. SHARE OPTIONS – CONTINUED

Year ended 31 December 2009:

Name or category of participant	Share option type	Number of share options: Outstanding at 1 January 2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2009
(a) Share Option Scheme						
Share option for directors and employees						
Executive director						
LIU Wei, William	2007	10,000,000	–	–	–	10,000,000
SHI Lixin	2007	10,000,000	–	–	–	10,000,000
Sub-total		20,000,000	–	–	–	20,000,000
Employees						
In aggregate	2007	1,200,000	–	–	–	1,200,000
Others						
In aggregate	2002	240,000	–	–	–	240,000
Total		21,440,000	–	–	–	21,440,000

Details of the share options are as follows:

Share option type	Date of grant	Exercisable period	Exercise price
(a) Share Option Scheme			
2002 (note i)	15 April 2002	15 April 2003 to 7 January 2012	HK$0.69
2007 (note ii & iii)	22 November 2007	22 May 2008 to 7 January 2012	HK$1.20
2010 (a) (note iv & v)	6 May 2010	6 May 2011 to 5 May 2018	HK$2.60
2010 (b) (note iv & v)	6 May 2010	6 May 2012 to 5 May 2018	HK$2.60
(b) Option Deed			
2010 (c) (note vi)	25 November 2010	25 November 2010 to 24 November 2013	HK$3.15

37. SHARE OPTIONS – CONTINUED

Notes :

(i) Share options granted on 15 April 2002 is subject to a vesting period and became exercisable in whole or in part in the following manner :

From the date of grant of share options	Exercisable percentage
Within 12 month	Nil
13th - 24th month	33 1/3%
25th - 36th month	33 1/3%
37th - 48th month and thereafter	33 1/3%

(ii) On 22 November 2007, the board of directors proposed to grant 21,200,000 share options to the Company's directors and employees at exercise price of HK$1.20 per share. The grant of share options was approved by the independent non-executive directors on 22 November 2007. Consideration of HK$5 in respect of these newly granted share options was received.

(iii) Share options granted on 22 November 2007 are subject to a vesting period of six months from the date of grant and became exercisable in whole or in part in the following manner :

From the date of grant of share options	Exercisable percentage
Within 6 month	Nil
7th month thereafter	100%

(iv) On 6 May 2010, the board of directors proposed to grant 127,700,000 share options to the Company's directors and employees at exercise price of HK$2.60 per share. The grant of share options was approved by the independent non-executive directors on 6 May 2010. Consideration of HK$13 in respect of these newly granted share options was received.

(v) Share options granted on 6 May 2010 are subject to a vesting period and became exercisable in whole or in part in the following manner:

From the date of grant of share options	Exercisable percentage
In the first year	Nil
In the second year (31,925,000 share option "Lot A")	25%
After the second year (95,775,000 share option "Lot B")	75%

(vi) On 26 March 2010, the Company signed a share option deed with Xinwen. Pursuant to the deed, the Company conditionally granted to Xinwen 300,000,000 share options for a consideration of HK$1, with the exercise price of HK$3.15 per option. On 25 November 2010, the Company granted the share options to Xinwen after the required conditions were fulfilled. The share options were immediately exercisable and are valid for 3 years.

(vii) The share options exercised during the year resulted in an equal number of issued ordinary shares (see also note 36).

(viii) The fair values of options granted under the relevant Share Option Scheme on 15 April 2002, 22 November 2007, Lot A and Lot B on 6 May 2010 and the option granted to Xinwen on 25 November 2010, measured at the date of grant, were approximately HK$5,024,000, HK$3,455,000, HK$23,124,079, HK$93,636,580 and HK$212,813,491 respectively. The following significant assumptions were used to derive the fair values, using the Black-Scholes option pricing model :

Date of grant	14 April 2002	22 November 2007	6 May 2010 Lot A	6 May 2010 Lot B	25 November 2010
Expected volatility	29%	20%	69%	74%	68%
Expected life (in years)	9.7	2.5	2.0	3.0	1.0
Risk-free interest rate	5%	2%	1%	1%	1%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil

The expected volatility is based on the historical volatility of the Company's share price, adjusted for any expected changes to future volatility based on publicly available information. The expected life used in the model has been adjusted based on management's best estimate.

(ix) For the year ended 31 December 2010, share-based payments of HK$349,883,000 have been included in the consolidated statement of comprehensive income, with a corresponding credit in share-based payment reserve, share capital and share premium. The amount recorded in share-based payment reserve represented the fair value of share options granted during the year of approximately HK$258,803,000 and the fair value of issuable shares (note 36(ii)) of approximately HK$56,600,000. The amount recorded in share capital of approximately HK$12,000 and recorded in share premium of approximately HK$34,468,000 represented the fair value of the consideration shares issued during the year (note 36(i) and (ii)) No liabilities were recognised due to share-based payment transactions.

Notes to the Financial Statements

For the year ended 31 December 2010

37. SHARE OPTIONS – CONTINUED

(x) Share options and weighted average exercise prices are as follows for the reporting period presented:

	2010 Number of share options	**2010** Weighted average exercise price HK$	2009 Number of share options	2009 Weighted average exercise price HK$
Outstanding at 1 January	**21,440,000**	**1.19**	21,440,000	1.19
Granted	**427,700,000**	**2.98**	–	–
Exercised	**(1,200,000)**	**1.20**	–	–
Forfeited	**(2,700,000)**	**2.60**	–	–
Outstanding at 31 December	**445,240,000**	**2.91**	21,440,000	1.19

The share options outstanding at 31 December 2010 had exercise price of HK$0.69, HK$1.20, HK$2.60 or HK$3.15 (2009: HK$0.69 or HK$1.20) and a weighted average remaining contractual life of 4.1 years (2009: 2.0 years).

(xi) 2,700,000 share options have been forfeited due to the reason that three grantees have resigned and left the Company during the year.

38. RESERVES

Other reserve of the Company and of the Group represented to recognise the difference arising from at fair value and at the nominal value of the loans from a shareholder and loan from a minority equity holder of a subsidiary on initial recognition.

Share-based payment reserve of the Company and of the Group represented to recognise the share-based compensation in statement of comprehensive income with a corresponding credit to share-based payment reserve.

GROUP

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 32 of the consolidated financial statements.

38. RESERVES – CONTINUED

COMPANY

	Share premium HK$'000	Other reserve HK$'000	Share-based payment reserve HK$'000	Convertible bonds equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	30,211	4,877	3,537	1,700	(19,431)	20,894
Conversion rights of convertible bonds exercise	14,300	–	–	(1,700)	–	12,600
Arising from loans from ultimate holding company	–	415	–	–	–	415
Transactions with owners	14,300	415	–	(1,700)	–	13,015
Loss for the year and total comprehensive income for the year	–	–	–	–	(53,551)	(53,551)
At 31 December 2009 and 1 January 2010	**44,511**	**5,292**	**3,537**	**–**	**(72,982)**	**(19,642)**
Issue of shares	**481,588**	**–**	**–**	**–**	**–**	**481,588**
Shares issued under share option scheme	**1,635**	**–**	**(196)**	**–**	**–**	**1,439**
Recognition of equity-settled share-based transactions	**–**	**–**	**315,403**	**–**	**–**	**315,403**
Recognition of equity component of convertible bonds	**–**	**–**	**–**	**363,304**	**–**	**363,304**
Arising from loans from ultimate holding company	**–**	**26,336**	**–**	**–**	**–**	**26,336**
Forfeiture of share option	**–**	**–**	**(972)**	**–**	**972**	**–**
Transactions with owners	**483,223**	**26,336**	**314,235**	**363,304**	**972**	**1,188,070**
Loss for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**(437,549)**	**(437,549)**
At 31 December 2010	**527,734**	**31,628**	**317,772**	**363,304**	**(509,559)**	**730,879**

Notes to the Financial Statements

For the year ended 31 December 2010

39. OPERATING LEASE COMMITMENTS

GROUP

At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable by the Group as follows :

	2010 HK$'000	2009 HK$'000
Within one year	164	329
In the second to fifth year inclusive	–	164
	164	493

The Group leases a number of rented premises under operating leases. The leases run for an initial period of two years. None of the leases include contingent rentals.

COMPANY

The Company did not have any significant operating lease commitments as at 31 December 2010 and 2009.

40. CAPITAL COMMITMENTS

GROUP

	2010 HK$'000	2009 HK$'000
Contracted but not provided for		
Property, plant and equipment	1,779	2,004
Proposed acquisition of business*	2,964,000	–
	2,965,779	2,004

COMPANY

	2010 HK$'000	2009 HK$'000
Contracted but not provided for		
Proposed acquisition of business*	2,964,000	–

* In connection with the SAM Acquisition and pursuant to its share purchase agreement (the "SPA"), the Company has to pay the total purchase consideration in five stages (the "Total Consideration"). A total of US$75 million (being US$10 million (stage 1) plus US$65 million (stage 2)) is payable to the sellers on the date of completion of the SAM Acquisition. The consideration paid at stage 3 depends on the date when the approvals and permits in relation to the commencement of construction of the mine, plant, pipeline and the relevant specified port facilities as detailed in the SPA are obtained. According to the SPA, the minimum consideration for stage 3 will be US$111.25 million and the contingent consideration will be US$3.75 million. Pursuant to the SPA, the principal amounts of the contingent consideration at stage 4 and 5 are US$100 million and US$100 million respectively, depending on the relevant specified port operation commencement date and the mining production commencement date. At 31 December 2010, the Group and the Company had already paid US$10 million (equivalent to approximately HK$78,000,000 (note 20)) for stage 1 and the aggregate principal amount of outstanding considerations for stage 2 to 5 of US$380 million (equivalent to approximately HK$2,964 million) are disclosed as the capital commitment. Further details of the SPA and the Total Consideration are disclosed in the Company's circular dated 5 November 2010.

41. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The retirement benefits cost charged to consolidated statement of comprehensive income represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

For members of the MPF Scheme, the Group contributes 5% of the relevant payroll costs to the MPF Scheme, which contribution is matched by the employee. Both the employer's and employees' contribution are subject to a maximum of monthly earnings of HK$20,000 per employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary. The employees are entitled to receive their entire contributions and the accrued interest thereon, and 100% of the employer's contributions and the accrued interest thereon upon retirement or leaving the employer after completing 10 years of service or at a reduced scale of between 30% to 90% after completing 3 to 9 years of service.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. There was no forfeited contributions utilised in this manner during the year (2009: HK$Nil). There was no significant amount of forfeited contributions available to reduce future contribution payable by the Group as at 31 December 2010 and 2009.

Employees located in the PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contribution schemes.

The calculation of contributions for the PRC eligible staff is based on certain percentage of the applicable payroll costs.

Notes to the Financial Statements

For the year ended 31 December 2010

42. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, during the year, the Group had no significant transactions with any of its related parties.

(a) During the year of 2009, the Group occupies the office premises at Suite 2703, 27th Floor, Great Eagle Centre, Wan Chai, Hong Kong which is provided rent-free by Mr. He Xuechu, a substantial shareholder and a director of the Company.

(b) The Group entered into a non-exclusive steel product distribution agreement with Shanghai Yingyue Industrial Co. Ltd. ("Yingyue") in which Mr. Yan Weimin, a non-executive director of the Company, is the controlling shareholder of Yingyue. There were no trading transactions made during the year.

43. ACQUISITION OF SUBSIDIARIES AND BUSINESS COMBINATION

On 24 March 2010, the Group acquired the entire issued share capital of Hill Talent Limited ("Hill Talent") at a consideration of HK$880,000,000. Upon completion of the acquisition, the Group will own the entire equity interests of Hill Talent which will own 66% of equity interest of Xianglan Do Brasil Mineracao Ltda (collectively referred to the "Xianglan Brazil Group"). The Xianglan Brazil Group is principally engaged in research, exploration and commercialisation of mineral resources (Manganese).

Details of the net assets acquired and goodwill are as follows :

	2010 **HK$'000**
Purchase consideration	
Consideration shares	**447,720**
Convertible bonds	**455,341**
Total purchase consideration	**903,061**
Fair value of net assets acquired	**(870,550)**
Goodwill on acquisition date	**32,511**

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of the Xianglan Brazil Group.

In connection with the acquisition of the Xianglan Brazil Group, the transaction costs approximate to HK$1,911,000 have been included in other operating expenses in the consolidated statement of comprehensive income for the year ended 31 December 2010.

43. ACQUISITION OF SUBSIDIARIES AND BUSINESS COMBINATION – CONTINUED

The assets and liabilities arising from the acquisition are as follows:

	Fair value at acquisition date HK$'000	Acquiree's carrying amount HK$'000
The assets and liabilities arising from the acquisition are as follows :		
Property, plant and equipment	289	289
Exploration and evaluation assets	1,969,118	1,515
Other receivables and deposits	409	409
Bank and cash balances	18,982	18,982
Other payables, accrued expenses and receipts in advance	(283)	(283)
Deferred tax liabilities	(669,500)	–
Net assets	1,319,015	20,912
Non-controlling interest (34%)	448,465	
Net assets acquired	870,550	
Bank and cash balances in subsidiaries acquired		18,982
Purchase consideration settled in cash		–
Cash inflow on acquisition		18,982

The exploration and evaluation assets were acquired as a result of a business combination of Xianglan Brazil Group during the year and were initially recognised at their fair values on the acquisition date with reference to the valuation performed by an independent firm of professional valuers.

Since its acquisition, the Xianglan Brazil Group contributed no revenue and net loss of HK$3,970,000 to the Group for the period from 24 March 2010 to 31 December 2010.

Had the combination taken place at 1 January 2010, the revenue and loss for the year of the Group would have been HK$73,531,000 and HK$450,202,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor are they intended to be a projection of future results.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Financial risk management is coordinated at the Group's headquarters, in close cooperation with the board of directors. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. The management identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the board of directors.

44.1 Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities.

(i) Financial assets

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets at fair value through profit or loss:				
Derivative financial assets	**44,354**	–	**44,354**	–
	44,354	–	**44,354**	–
Loans and receivables:				
Non-current assets				
Deposits for acquisition of business	**78,000**	–	**–**	–
Advances to an acquiring business	**141,503**	–	**141,503**	–
	219,503	–	**141,503**	–
Current assets				
Trade and bill receivables	**8,074**	7,129	**–**	–
Other receivables	**5,970**	6,598	**1,529**	202
Amounts due from subsidiaries	**–**	–	**86,176**	200
Cash and bank balances	**30,046**	16,240	**1,617**	1,107
	44,090	29,967	**89,322**	1,509
	307,947	29,967	**275,179**	1,509

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

44.1 Categories of financial assets and liabilities – continued

(ii) Financial liabilities

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities at amortised cost :				
Current liabilities				
Trade payables	**8,206**	8,545	**–**	–
Other payables	**23,612**	19,689	**1,687**	–
Amounts due to subsidiaries	**–**	–	**1,078**	1,079
Borrowings	**11,148**	14,375	**–**	–
	42,966	42,609	**2,765**	1,079
Non-current liabilities				
Borrowings	**266**	597	**–**	–
Loans from ultimate holding company	**283,851**	49,026	**283,851**	49,026
Loan from a minority equity holder of a subsidiary	**6,229**	5,933	**–**	–
Convertible bonds	**189,333**	–	**189,333**	–
	479,679	55,556	**473,184**	49,026
	522,645	98,165	**475,949**	50,105

Notes to the Financial Statements

For the year ended 31 December 2010

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

44.2 Fair value and fair value hierarchy

The Group and the Company use the following hierarchy for determining and disclosing the fair value of financial instruments that are measured at fair value in the statements of financial position:

Level 1: fair value measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

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

(i) Assets measured at fair value

Group and Company

As at 31 December 2010	**Level 1** HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Derivative financial assets	–	44,354	–	44,354

The Group and the Company did not have any financial assets measured at fair value as at 31 December 2009.

(ii) Liabilities measured at fair value

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2010 and 2009.

44.3 Foreign currency risk

The Group's exposure to currency exchange rates is minimal as the group companies usually hold most of their financial assets/liabilities in their own functional currencies. Currently the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

44.4 Interest rate risk

The Group's exposure to interest rate risk mainly arises on interest-bearing borrowings at floating rates (see note 31). The exposure to interest rates for the Group's bank deposits is considered immaterial.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The sensitivity analysis demonstrates the Group's exposure to a reasonable possible change in interest rates on its floating rate borrowings with all other variable held constant at the reporting date (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material). If the interest rates had been increased/decreased by 100 (2009: 100) basis points at the beginning of the year, the Group loss for the year and accumulated losses would increase/decrease by approximately HK$126,000 (2009: HK$51,000).

The changes in interest rates do not affect the Group's other components of equity.

The above sensitivity analysis is prepared based on the assumptions that the borrowing period of each loan outstanding at year end resembles that of the current financial year.

The Company's exposure to interest rate risk is minimal as it has no significant interest-bearing assets and liabilities.

44.5 Credit risk

The Group's maximum credit risk exposure of its financial assets is summarised in note 44.1 above.

The Group continuously monitors defaults of customers and other counterparties, identifies either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

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

None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade, bill and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Notes to the Financial Statements

For the year ended 31 December 2010

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

44.6 Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified monthly.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

In preparing the financial statements for the year ended 31 December 2010, the Directors have given considerations to the future financial positions of the Group in light of the future cash financing requirements of US$65 million (equivalent to approximately HK$507 million) which is payable upon completion of the SAM Acquisition (i.e. stage 2 as set out in note 40) (the "Financing for SAM Acquisition"). The Financing for SAM Acquisition is expected to be settled within the next twelve months from the date of approval of these financial statements.

The financial statements have been prepared on the assumption that the Group and the Company will continue as a going concern notwithstanding the Financing for SAM Acquisition as at 31 December 2010 and subsequent thereto up to the date of approval of these financial statements. On the basis that Hong Bridge, the Company's ultimate holding company, provides continuing financial support to the Group and expresses its willingness to provide adequate funds for the Group to meet its liabilities and obligations as and when they fall due, including the Financing for SAM Acquisition (if and when it becomes payable but alternative funding is not yet made available to the Group and the Company at that time), for the period at least up to 28 March 2012, the Directors are satisfied that both the Group and the Company will be able to meet in full their financial obligations as they fall due for the foreseeable future without significant curtailment of operations. Accordingly, the financial statements have been prepared on a going concern basis.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

44.6 Liquidity risk – continued

As at 31 December 2010 and 2009, the Group's financial liabilities have contractual maturities which are summarised below:

GROUP

	Within 1 month or on demand HK$'000	1 to 3 months HK$'000	3 to 12 months HK$'000	Over 1 year HK$'000	Total undiscounted amount HK$'000	Total carrying amount HK$'000
At 31 December 2010						
Trade payables	**8,206**	**–**	**–**	**–**	**8,206**	**8,206**
Other payables	**23,612**	**–**	**–**	**–**	**23,612**	**23,612**
Borrowings	**5,272**	**–**	**5,876**	**266**	**11,414**	**11,414**
Loans from ultimate holding company	**–**	**–**	**–**	**304,800**	**304,800**	**283,851**
Loan from a minority equity holder of a subsidiary	**–**	**–**	**–**	**6,800**	**6,800**	**6,229**
Convertible bonds	**–**	**–**	**–**	**400,000**	**400,000**	**189,333**
	37,090	**–**	**5,876**	**711,866**	**754,832**	**522,645**
Financial guaranteed issued :						
Maximum amount guaranteed	–	–	3,526	–	3,526	–
At 31 December 2009						
Trade payables	7,905	640	–	–	8,545	8,545
Other payables	19,396	9	284	–	19,689	19,689
Borrowings	6,044	1,282	7,049	597	14,972	14,972
Loans from ultimate holding company	–	–	–	51,000	51,000	49,026
Loan from a minority equity holder of a subsidiary	–	–	–	6,800	6,800	5,933
	33,345	1,931	7,333	58,397	101,006	98,165
Maximum amount guaranteed	–	–	3,405	–	3,405	–

Notes to the Financial Statements

For the year ended 31 December 2010

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

44.6 Liquidity risk – continued

COMPANY

	Within 1 month or on demand HK$'000	1 to 3 months HK$'000	3 to 12 months HK$'000	Over 1 year HK$'000	Total undiscounted amount HK$'000	Total carrying amount HK$'000
At 31 December 2010						
Amounts due to subsidiaries	**1,078**	**–**	**–**	**–**	**1,078**	**1,078**
Other payables	**1,687**	**–**	**–**	**–**	**1,687**	**1,687**
Loans from ultimate holding company	**–**	**–**	**–**	**304,800**	**304,800**	**283,851**
Convertible bonds	**–**	**–**	**–**	**400,000**	**400,000**	**189,333**
	2,765	**–**	**–**	**704,800**	**707,565**	**475,949**
At 31 December 2009						
Amount due to a subsidiary	1,079	–	–	–	1,079	1,079
Loans from ultimate holding company	–	–	–	51,000	51,000	49,026
	1,079	–	–	51,000	52,079	50,105

45. CAPITAL MANAGEMENT

The Group's objectives when managing capital include:

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

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

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

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

The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or raise new debts, or sell assets to reduce debt.

45. CAPITAL MANAGEMENT – CONTINUED

The capital-to-overall financing ratio at reporting date was as follows:

	2010 HK$'000	2009 HK$'000
Capital		
Total equity	1,282,344	(6,871)
Loans from ultimate holding company	(31,628)	(5,292)
Loan from a minority equity holder of a subsidiary	(556)	(556)
Convertible bonds – equity components	(363,304)	–
	886,856	(12,719)
Overall financing		
Borrowings	11,414	14,972
Loans from ultimate holding company	315,479	54,318
Loan from a minority equity holder of a subsidiary	6,785	5,933
Convertible bonds – equity and liability components	552,637	–
	886,315	75,223
Capital-to-overall financing ratio	1.00 times	N/A

46. EVENTS AFTER THE REPORTING DATE

In addition to those disclosed elsewhere in these financial statements, the Group had the following material events after the reporting date :

On 31 January 2011, the Company as the vendor and Win Gain Investments Limited (the "Purchaser") entered into the sale and purchase agreement, pursuant to which, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire issued share capital of Great Ready Assets Limited ("Great Ready") at a consideration of HK$1,000,000. Great Ready and its subsidiaries hold the entire interest of the publication business of the Group. Upon completion of the disposal, the entire publication business of the Group would be disposed of. Further details of which are disclosed in the Company's very substantial disposal announcement dated 23 February 2011. The disposal has been approved by the shareholders of the Company on the extraordinary general meeting of the Company held on 18 March 2011 and the Directors estimated the disposal would result in a gain of approximately HK$3,300,000.

47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2010 were approved for issue by the Board of Directors on 28 March 2011.

Financial Summary

FINANCIAL RESULTS

	Year ended 31 December				
	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
Revenue	83,464	67,843	55,091	32,592	**73,531**
Direct operating expenses	(68,054)	(43,696)	(39,864)	(20,567)	**(62,469)**
Other operating revenue	259	192	480	342	**4,322**
Selling and distribution costs	(19,491)	(17,271)	(7,101)	(5,904)	**(7,392)**
Administrative expenses	(8,332)	(9,998)	(15,095)	(17,270)	**(30,141)**
Other operating income/(expenses), net	(2,015)	4,628	(10,880)	(3,309)	**(45,084)**
Share-based payment expenses	–	–	–	–	**(349,883)**
Impairment of goodwill	–	–	–	(35,686)	**–**
Operating profit/(loss)	(14,169)	1,698	(17,369)	(49,802)	**(417,116)**
Finance costs	–	(169)	(2,575)	(3,918)	**(32,397)**
Profit/(loss) before income tax	(14,169)	1,529	(19,944)	(53,720)	**(449,513)**
Income tax expense	–	–	–	–	**–**
Profit/(loss) for the year	(14,169)	1,529	(19,944)	(53,720)	**(449,513)**
Attributable to :					
Owners of the Company	(14,169)	1,529	(15,729)	(50,136)	**(445,650)**
Non-controlling interests	–	–	(4,215)	(3,584)	**(3,863)**
Profit/(loss) for the year	(14,169)	1,529	(19,944)	(53,720)	**(449,513)**

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
Total assets	21,228	41,759	137,706	94,204	**2,529,270**
Total liabilities	(28,229)	(22,561)	(106,894)	(101,075)	**(1,246,926)**
Non-controlling interest	–	–	(19,686)	(16,470)	**(495,588)**
Equity attributable to owners of the Company	(7,001)	19,198	11,126	(23,341)	**786,756**