MERDEKA

Merdeka Resources Holdings Limited

萬德資源集團有限公司*

STOCK CODE 股份代號：8163

* for identification purposes only

* 僅供識別

ANNUAL REPORT 2012 年報

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**　僅供識別*

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Cheung Wai Yin, Wilson
(Chairman and Chief Executive Officer)
Mr. Lau Chi Yan, Pierre
Mr. Ma Hang Kon, Louis

Non-executive Director

Mr. Wong Chi Man

Independent Non-executive Directors

Mr. Lam Kin Kau, Mark
Ms. Yeung Mo Sheung, Ann
Mr. Lau Ho Wai, Lucas

COMPANY SECRETARY

Mr. Lai Yau Hong, Thomson

COMPLIANCE OFFICER

Mr. Cheung Wai Yin, Wilson

AUDIT COMMITTEE

Mr. Lam Kin Kau, Mark
Ms. Yeung Mo Sheung, Ann
Mr. Lau Ho Wai, Lucas

REMUNERATION COMMITTEE

Mr. Cheung Wai Yin, Wilson
Mr. Lau Chi Yan, Pierre
Mr. Lam Kin Kau, Mark
Ms. Yeung Mo Sheung, Ann
Mr. Lau Ho Wai, Lucas

NOMINATION COMMITTEE

Mr. Cheung Wai Yin, Wilson
Mr. Lau Chi Yan, Pierre
Mr. Lam Kin Kau, Mark
Ms. Yeung Mo Sheung, Ann
Mr. Lau Ho Wai, Lucas

AUTHORISED REPRESENTATIVE

Mr. Cheung Wai Yin, Wilson
Mr. Lai Yau Hong, Thomson

AUDITORS

Elite Partners CPA Limited

PRINCIPAL BANKERS

Hang Seng Bank Limited
Nanyang Commercial Bank Limited

REGISTERED OFFICE

Cricket Square
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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands
British West Indies

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Concordia Plaza,
1 Science Museum Road,
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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House,
24 Shedden Road,
PO Box 1586,
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

8163

WEBSITE

www.merdeka.com.hk

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of Merdeka Resources Holdings Limited, I am pleased to present the 2012 annual results of the Company and its subsidiaries for the year ended 31 December 2012. During the year, the Group's principal businesses continued to be forestry, plantation and trading.

BUSINESS REVIEW

The Group's forestry business and plantation business are related to our forest concessions in the Papua Province of Indonesia (the "Papua"). The former covers upstream operation of logging and downstream operation of timber processing while the later involves the plantation of seedlings of palm trees in the logged and cleared area. In 2012, macro environment for these two businesses was unfavourable. Triggered by the slow down in global economy, general demand for forestry and timber products was weakened, which in turn exerted a downward pressure on their market prices. The local political environment in the Papua also became quite uncertain and possessed great challenges to our production and operation there.

OPERATION REVIEW

As a result of the adverse local political situation in the Papua, our forestry business did not progress as scheduled. We had to refine our production plan and scale down the operation. Upstream operation of logging was stopped in 2012. During the year, downstream operation of timber processing came to a halt as well. Unlike the sales of woods in 2011, the Group therefore did not record any revenue from the business in 2012. Delay in moving the logs from forest to factory for prompt processing also resulted in obsolete logs and woods. Accordingly, the management determined to write off the inventories of approximately HK$1,914,000.

As to the associated plantation business, there was no new plantation made in 2012 as the logging and clearing activities were suspended. Considering that economies of scale could not be achieved at this stage and the resumption of logging in near term was uncertain, the management decided to dissolve the in-house team taking care of the plantings and write off the biological assets of approximately HK$9,579,000.

The postponement of our forestry project in the Papua and the lower market prices for timber products had also led to the impairment of approximately HK$560,000,000 and HK$16,000,000 to the forest concessions and property, plant and equipment respectively.

As to the trading business, the Group continued to engage in the trading of agricultural-related products in 2012 and recorded sales of approximately HK$7,909,000. We strived to grow this business which provided a stable source of revenue.

We reported a loss attributable to owners of the Company for 2012 of approximately HK$613,037,000, representing an increase of 812.8% compared to 2011. The significant increase in loss was mainly due to the aforesaid impairment losses.

CHANGE OF THE BOARD AND SUBSTANTIAL SHAREHODLER

In the annual general meeting held on 3 May 2012, Mr. Fung Hoi Wing, Henry, Mr. Lau Ho Wai, Lucas and Mr. Ma Hang Kon, Louis were re-elected as the directors of the Company. On 15 May 2012, Mr. Wong Shui Lung and Mr. Bai Baohua resigned as an executive director and a non-executive director of the Company respectively. On the same day, Mr. Yeh Shuen Ji resigned as a non-executive director and the Chairman of the Company and Mr. Ma Hang Kon, Louis was appointed as the Chairman of the Company. On 20 June 2012, Mr. Lai Wing Hung ceased to be a substantial shareholder of the Company and Mr. Ma Hang Kon, Louis became a substantial shareholder of the Company. On 22 June 2012, Mr. Lai Wing Hung resigned as an executive director of the Company. On 10 July 2012, Professor Gong Yao Qian was appointed as an executive director of the Company. On 14 August 2012, Mr. Ma Hang Kon, Louis ceased to be a substantial shareholder and Mr. Cheung Wai Yin, Wilson became a substantial shareholder of the Company. On 24 August 2012, Mr. Cheung Wai Yin, Wilson was appointed as the Chairman, Chief Executive Officer and an executive director of the Company. Mr. Ma Hang Kon, Louis was re-designated as an executive director of the Company. On the same day, Mr. Lau Chi Yan, Pierre and Mr. Wong Chi Man were appointed as an executive director and a non-executive director of the Company respectively. On 26 October 2012, Mr. Fung Hoi Wing, Henry resigned and Ms. Yeung Mo Sheung, Ann was appointed as an independent non-executive director of the Company. On 27 November 2012, Professor Gong Yao Qian resigned as an executive director of the Company.

LETTER TO THE SHAREHOLDERS

OUTLOOK

After the change of management and restructuring of the Board in 2012, the new management has been actively looking for opportunities to diversify the Company's business. In addition to forestry and agriculture, there are ample natural resources in Indonesia. On 19 July 2012, the Group agreed to acquire 0.8 million metric tonnes of tailings in Indonesia at the consideration of HK$6 million, satisfied by the issuance of 400 million new shares of the Company. The relevant agreement became effective on 3 August 2012 for the tailings to be delivered within 24 months. Leveraging on the experience of our newly appointed director in the information technology industry, the Group entered into an agreement to acquire 70% interest of Ever Hero Group on 6 September 2012. The principal activity of Ever Hero Group is to provide information technology solution, online and offline game and content development and enterprise system maintenance services. This proposed very substantial acquisition is subject to the satisfaction of several conditions, including the approval of the shareholders of the Company. The consideration, being HK$100 million, will be satisfied by HK$20 million cash, HK$45 million interest bearing promissory note and HK$35 million zero coupon convertible bonds. We believe the successful completion of its acquisition will have a positive impact on the Group's financial performance for the coming financial year. We will continue to consider any suitable business opportunities, taking into account the cash flow requirement and associated business risk.

As to the existing businesses in the Papua, the Group will endeavour to streamline and optimize its operations there to preserve our financial resources before the resumption of the forestry project.

APPRECIATION

On behalf of the Board, I would like to express my sincere thanks to the valuable contribution from our departing directors, Mr. Yeh Shuen Ji, Mr. Lai Wing Hung, Mr. Wong Shui Lung, Mr. Bai Baohua, Mr. Fung Hoi Wing, Henry and Professor Gong Yao Qian. I would also like to express my gratitude to our management team and all staff for their hard work in the execution of the Group's strategies and operations during the past year. As approved by the shareholders in the annual general meeting held on 3 May 2012, the Company adopted a new share option scheme, which could provide incentives and rewards to eligible participants for their contribution to the Group. Last but not the least, I wish to thank all shareholders, customers, suppliers, business partners, bankers, government authorities for their continuous support and confidence in the Group.

Cheung Wai Yin, Wilson
Chairman and Chief Executive Officer

Hong Kong
22 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Highlights on financial results

(HK$'000, except percentage figures)	Year ended 31 December **2012**	2011	Change
Revenue	**7,909**	8,891	-11.0%
Gross profit	**167**	795	-79.0%
Gross profit margin	**2.1%**	8.9%	-6.8 percentage points
Operating expenses	**(19,282)**	(19,135)	+0.8%
Administrative expenses	**(11,973)**	(15,862)	-24.5%
Non-cash items:			
Depreciation*	**(7,201)**	(6,363)	+13.2%
Amortization**	**–**	(3,724)	-100.0%
Inventories written off**	**(1,914)**	–	Not applicable
Biological assets written off	**(9,579)**	–	Not applicable
Impairment of prepayments, deposits and other receivables**	**(1,701)**	–	Not applicable
Impairment of forest concessions	**(560,000)**	–	Not applicable
Impairment of property, plant and equipment	**(16,000)**	–	Not applicable
Change in fair value of biological assets less cost to sell	**–**	2,944	-100.0%
Equity-settled share option expenses	**(974)**	(2,880)	-66.2%
Finance costs	**(26,872)**	(35,431)	-24.2%
Loss for the year	**(644,073)**	(69,526)	+826.4%
Loss excluding non-cash items***	**(19,832)**	(24,072)	-17.6%

* In 2012, all of the depreciation was included in the operating and administrative expenses. In 2011, approximately HK$1,638,000 of the depreciation was included in cost of sales while the rest was included in the operating and administrative expenses.

** These items were included in operating expenses

*** Loss for the year less non-cash items stated

Discussion on financial results

The revenue of the Group in 2012, which was solely generated from the trading business, dropped by 11.0% to approximately HK$7,909,000 from approximately HK$8,891,000 in 2011, which was generated from both the trading business and the logging activities of forestry business. As the trading business has a lower profit margin than the forestry business, the gross profit margin of the Group notably decreased to approximately 2.1% or HK$167,000 in 2012 from approximately 8.9% or HK$795,000 in 2011.

The operating expenses of the Group in 2012 was approximately HK$19,282,000, which remained at a similar level compared to that of 2011, as the savings in downsizing its operation in Indonesia were offset by the restructuring related expenses there. The administrative expenses of the Group decreased by 24.5% to approximately HK$11,973,000 in 2012 from approximately HK$15,862,000 in 2011, mainly due to the reduction in staff costs and director emoluments.

During the year ended 31 December 2012, depreciation increased by 13.2% to approximately HK$7,201,000 in 2012 from approximately HK$6,363,000 in 2011, as no depreciation was capitalized in inventories in 2012 when the production came to a halt. In 2011, depreciation of approximately HK$822,000 was capitalized in inventories.

MANAGEMENT DISCUSSION AND ANALYSIS

Amortization represented the amortization of the Group's forest concessions in Indonesia covering an area of 313,500 hectares. It is charged on a unit of production basis. In 2012, logging activities stopped and therefore no amortization was charged. In 2011, the Group was granted wood utilization permit to perform logging covering an area of 1,500 hectares and amortization of approximately HK$3,724,000 was charged accordingly.

In 2012, the Group wrote off obsolete log and wood inventories and palm oil planting biological assets of approximately HK$1,914,000 and HK$9,579,000 respectively. Impairment of approximately HK$1,701,000 was made in respect of the other receivables related to the operation in Indonesia. The postponement of the Group's forestry project and lower market prices for timber products had also led to the impairment of approximately HK$560,000,000 and HK$16,000,000 to the forest concessions and property, plant and equipment respectively. In 2011, the Group recorded a gain of approximately HK$2,944,000 as change in fair value of the biological assets, with reference to the growth status of the palm oil seedlings at that time.

During the year ended 31 December 2012, the old share option scheme of the Company, which was adopted in 2002, expired. All the outstanding share options thereunder, a total of 307,000,000 share options, were lapsed because of the expiry of the option period and the corresponding share option reserve of approximately HK$14,491,000 was released directly to the accumulated losses. A total of 83,500,000 share options were granted in 2012 whereas 107,000,000 share options were granted in 2011. The associated equity-settled share option expense, which was non-cash in nature and represented the fair value of the share options granted, was approximately HK$974,000 and HK$2,880,000 in 2012 and 2011 respectively.

Finance cost of the Group represented solely the non-cash imputed interest charge in the liability component of the Group's zero coupon convertible bonds. The cost decreased by 24.2% to approximately HK$26,872,000 in 2012 from approximately HK$35,431,000 in 2011, which was mainly due to the decrease in average balance of the liability component when certain convertible bonds were converted into the shares of the Company during 2012.

Loss for the year increased by 826.4% to approximately HK$644,073,000 in 2012 from approximately HK$69,526,000 in 2011. The significant increase in loss was mainly due to the aforesaid impairments in relation to the forest concessions and property, plant and equipment.

Excluding the effects of non-cash items like share option expenses, finance costs, depreciation, amortisation, impairments of prepayments, deposits and other receivables, forest concessions and property, plant and equipment and the written off of inventories and biological assets, the Group recorded a lower loss before tax at HK$19,832,000 in 2012 compared to HK$24,072,000 in 2011. The reduction was mainly because the Group had downsized its work forces.

Analysis by business segment

	Revenue		Profit/(loss) before tax	
	Year ended 31 December			
(HK$'000)	**2012**	2011	**2012**	2011
Trading business	**7,909**	4,072	**167**	85
Forestry business	**–**	4,819	**(627,662)**	(61,196)
Plantation business	**–**	–	**(10,129)**	1,951
Total	**7,909**	8,891	**(637,624)**	(59,160)

Revenue from our trading business increased by 94.2% from approximately HK$4,072,000 in 2011 to approximately HK$7,909,000 in 2012, as the Group strived to grow the business of trading of agricultural-related commodities, which provided a stable source of revenue.

Same as 2011, no revenue was recorded for the Group's plantation business in 2012. Considering that economies of scale could not be achieved at this stage when the logging activities were stopped in 2012, the in-house team taking care of the plantings was dissolved and the palm oil plantings of approximately HK$9,579,000 were written off.

MANAGEMENT DISCUSSION AND ANALYSIS

Compared to 2011, loss before tax from the forestry business in 2012 increased significantly, which was mainly due to the impairments related to the forest concessions and property, plant and equipment related to the forestry business. Plantation business incurred a loss before tax of approximately HK$10,129,000 in 2012 whereas it incurred a profit before tax of approximately HK$1,951,000 in 2011. It was because gain in change of fair value of biological assets of approximately HK$2,944,000 was recorded in 2011 but the biological assets of approximately HK$9,579,000 were written off in 2012.

Analysis by geographical segment

	Year ended 31 December			
	2012		2011	
(HK$'000, except percentage figures)	**Revenue**	**Proportion**	Revenue	Proportion
Hong Kong	**7,909**	**100%**	8,891	100%

All the Group's revenue was derived from Hong Kong in 2012 and 2011.

Highlights on financial position

	As at 31 December		
(HK$'000, except percentage figures)	**2012**	2011	Change
Property, plant and equipment	**13,106**	39,424	-66.8%
Forest concessions	**269,811**	829,811	-67.5%
Biological assets	**–**	9,579	-100.0%
Trade receivables	**2,365**	2,878	-17.8%
Inventories	**–**	1,914	-100.0%
Prepayments, deposits and other receivables	**26,498**	2,314	+1,045.1%
Cash and cash equivalents	**2,620**	35,681	-92.7%
Other payables and accruals	**4,557**	1,524	+199.0%
Convertible bonds – liability component	**189,705**	304,111	-37.6%
Non-controlling interests	**4,336**	35,372	-87.7%
Shareholders' funds	**115,802**	580,594	-80.1%

Discussion on financial position

Property, plant and equipment decreased to approximately HK$13,106,000 as at 31 December 2012 from approximately HK$39,424,000 as at 31 December 2011. The decrease was mainly due to disposals of items with net book value of approximately HK$3,117,000, the depreciation of approximately HK$7,201,000 and impairment of approximately HK$16,000,000 in 2012.

Forest concessions decreased to approximately HK$269,811,000 as at 31 December 2012 from approximately HK$829,811,000 as at 31 December 2011. The decrease was due to the impairment made in 2012.

Biological assets in 2011 represented the fair value of palm oil plantings with reference to the growth status. All of the seedlings were written off as the in-house team taking care of the plantings was dissolved in 2012.

Trade receivables decreased to approximately HK$2,365,000 as at 31 December 2012 from approximately HK$2,878,000 as at 31 December 2011, as the Group put more effort in credit control and collection.

Inventories in 2011 represented the value of logs. All of the obsolete logs and woods were written off as they became bad and rotten due to delay in moving from forest to factory.

MANAGEMENT DISCUSSION AND ANALYSIS

Prepayments, deposits and other receivables increased to approximately HK$26,498,000 as at 31 December 2012 from approximately HK$2,314,000 as at 31 December 2011. The significant increase in 2012 was mainly due to the payment of HK$20,000,000 as a deposit for the proposed very substantial acquisition of Ever Hero Group and the prepayment of HK$6,000,000 for the acquisition of 0.8 million metric tonnes of tailings in relation to the share-based transaction during the year.

Cash and cash equivalents decreased significantly by 92.7% to approximately HK$2,620,000 as at 31 December 2012 from approximately HK$35,681,000 as at 31 December 2011. The decrease was mainly caused by the payment of the deposit of HK$20,000,000 for the aforesaid proposed acquisition of Ever Hero Group and the net cash outflow to finance operational expenses.

Other payables and accruals increased to approximately HK$4,557,000 as at 31 December 2012 from approximately HK$1,524,000 as at 31 December 2011. The increase was mainly due to the legal and professional fees incurred in late 2012 for the proposed very substantial acquisition of Ever Hero Group.

The liability component of the convertible bonds decreased by 37.6% to approximately HK$189,705,000 as at 31 December 2012 from approximately HK$304,111,000 as at 31 December 2011. The decrease was mainly due to the conversion of certain convertible bonds during 2012. The outstanding principal amounted to approximately HK$224,880,000 and HK$404,880,000 respectively as at 31 December 2012 and 2011.

Non-controlling interests decreased to approximately HK$4,336,000 as at 31 December 2012 from approximately HK$35,372,000 as at 31 December 2011. The decrease was mainly due to the sharing of loss, including the impairments related to the forest concessions and property, plant and equipment, in our non-wholly owned Indonesian subsidiaries by their non-controlling shareholders for 2012.

The Group's shareholders' funds decreased to approximately HK$115,802,000 as at 31 December 2012 from approximately HK$580,594,000 as at 31 December 2011. The decrease was mainly due to the loss attributable to the owners of the Company of approximately HK$613,037,000, partially offset by the increase in share premium of approximately HK$146,276,000 mainly related to the conversion of convertible bonds.

Capital structure and gearing ratio

	As at 31 December			
	2012		2011	
	HK$'000	**Proportion**	HK$'000	Proportion
Total borrowings – Convertible bonds (liability component)	**189,705**	**62.1%**	304,111	34.4%
Equity	**115,802**	**37.9%**	580,594	65.6%
Total capital employed	**305,507**	**100.0%**	884,705	100.0%

The Group's gearing ratio was approximately 62.1% as at 31 December 2012 (2011: 34.4%). The increase was mainly due to the aforesaid decrease in shareholders' funds largely contributed by the loss attributable to the owners of the Company.

During the year ended 31 December 2012, convertible bonds with an aggregate principal amount of HK$180 million were converted into 1.8 billion shares of the Company with par value of HK$0.01 each. The outstanding principal amounted to approximately HK$224,880,000 as at 31 December 2012 (2011: HK$404,880,000). Its maturity date is 12 August 2014 and the effective interest rate of the liability component is approximately 11.66%. Other than the convertible bonds, the Group had no other borrowings as at 31 December 2012 and 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

(HK$'000)	As at 31 December **2012**	2011
Current assets	**31,483**	42,787
Current liabilities	**4,557**	1,524
Current ratio	**690.9%**	2,807.5%

The current ratio of the Group as at 31 December 2012 was 690.9% (2011: 2,807.5%), reflecting the fact that the liquidity of the Group remained healthy in 2012.

As at 31 December 2012, the Group's cash and cash equivalents amounted to approximately HK$2,620,000 (2011: HK$35,681,000). No cash and cash equivalents of the Group were pledged for general banking facilities as at 31 December 2012 and 2011. As at 31 December 2012, about 22.0% (2011: 87.1%) of the Group's cash and cash equivalents were deposits placed with licensed banks in Hong Kong, among which about 100.0% (2011: 92.6%) were denominated in Hong Kong dollars.

Foreign currency exposure

The Group's reporting currency is Hong Kong dollar. During the year ended 31 December 2012 and 2011, most of the Group's transactions were denominated in Hong Kong dollars ("HK$"), Indonesian Rupiah ("Rp") and United States dollars ("US$"), to which HK$ is pegged. The Group had exposure to the risk of exchange rate fluctuations for Rp on account of its cost of forestry and plantation operations in Indonesia. The Group did not formally employ any hedging instruments or derivative products considering the relevant costs and benefits. However, the Group will continue to monitor closely the exchange rate risk.

Contingent liabilities

As at 31 December 2012, the Group did not have any significant contingent liabilities.

Acquisition and disposal of subsidiaries and affiliated companies

Details of acquisition and disposal of subsidiaries during the year ended 31 December 2012 are disclosed in Note 9 of the notes to the financial statements. The Group did not acquire or dispose of any material subsidiaries and associates during the year ended 31 December 2011.

Significant investments

The Group did not acquire or hold any significant investment during the year ended 31 December 2012 and 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of assets

As at 31 December 2012 and 2011, the Group did not have any pledged deposits and assets.

Capital commitments

As at 31 December 2012 and 2011, the Group did not have any significant capital commitments.

Employees and remuneration policy

As at 31 December 2012, the Group employed 27 staff (2011: 165). The Group's remuneration policy is built on principle of equality, motivating, performance-oriented and market-competitiveness. Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, other staff benefits included provident fund contributions, medical insurance coverage and performance related bonuses. Share options may also be granted to eligible employees and persons of the Group. As at 31 December 2012, there were outstanding share options of 83,500,000 (2011: 307,000,000).

Event after the reporting period

On 17 January 2013, 595,000,000 share options were granted to the eligible participants under the share option scheme, among which 93,500,000 and 495,000,000 share options were exercised on 18 January 2013 and 1 February 2013 respectively. Besides, 4,000,000 share options were lapsed on 1 February 2013.

Pursuant to the announcement dated on 20 February 2013, the directors propose the share consolidation on the basis that every forty shares of HK$0.01 be consolidated into one consolidated share of HK$0.40 each. In addition, subject to the share consolidation becoming effective, the directors propose the capital reduction pursuant to which the par value of each of the issued consolidated shares will be reduced from HK$0.40 to HK$0.01 each by cancelling the paid-up capital to the extent of HK$0.39 per issued consolidated shares.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Cheung Wai Yin, Wilson, aged 42, is currently an executive director, the chairman, chief executive officer ("CEO"), compliance officer, member of the Nomination Committee, member of the Remuneration Committee, authorised representative and agent for service of process in Hong Kong of the Company and as a director of certain relevant subsidiaries of the Company. He is a controlling shareholder of Ivana Investments Limited and also a substantial shareholder of the Company. He is also the Chairman and Chief Executive Officer of Dejin Resources Group Company Limited, a company listed in Hong Kong. Mr. Cheung has over 17 years of experience in the field of audit, business development, corporate finance and financial management. Mr. Cheung is a member of the Hong Kong Institute of Certified Public Accountants and Hong Kong Securities and Investment Institute. He holds a Master of Science degree in Financial Engineering from City University of Hong Kong and Bachelor degrees in Arts and Administrative Studies from York University, Canada.

Mr. Lau Chi Yan, Pierre, aged 37, is currently an executive director, member of Nomination Committee, member of the Remuneration Committee and as a director of certain relevant subsidiaries of the Company. He is also the executive director of Dejin Resources Group Company Limited, a company listed in Hong Kong. Mr. Lau has over 13 years of experience in the field of information system, operational system and general management. Mr. Lau holds an Executive Master Degree of Business Administration in General Management from University of Hull, the United Kingdom and a Bachelor of Science degree in Computer Science from University of Calgary, Canada. Besides, Mr. Lau is a member of Guangdong Huizhou Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議廣東省惠州市委員).

Mr. Ma Hang Kon, Louis, aged 50, joined the Group in 2008, is currently an executive director and a director of certain relevant subsidiaries of the Company. He is primarily responsible for taking a managing and overseeing role in the forestry and tailings businesses of the Group. Mr. Ma has over 28 years of working experience, mainly in the petrochemical and electronics industries in the United States and in the Asia Pacific region. He is experienced in starting up operations including building an infrastructure of manufacturing facilities in the Asia Pacific, in leading mergers and acquisitions, and in rapidly growing business in new geographic locations. He has acquired management experience in the forestry business of the Group in Indonesia during the period of his employment with the Group. Mr. Ma is a member of each of The Montana Board of Public Accountants, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Secretaries and Administrators. He graduated from the Kellogg School of Business, Northwestern University in the United States and the Hong Kong Polytechnic (the predecessor of The Hong Kong Polytechnic University).

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Wong Chi Man, aged 31, is currently the Associate Director of Cheong Lee Securities Limited. Mr. Wong has over 5 years of experience in the field of investment, finance and securities advisory. He holds a Master of Applied Finance degree from Monash University and a Bachelor degree in Commerce from Deakin University, Australia.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Kin Kau, **Mark**, aged 58, has served as an INED of the Company since April 2006 and is a member of the Nomination Committee, the Remuneration Committee and the Audit Committee. He is a member of the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Accountants in England and Wales and The Institute of Chartered Secretaries and Administrators. He has been a practising accountant for over 26 years and is a director of various private companies. He is also an INED of Neo Telemedia Limited (formerly known as BIG Media Group Limited), a company listed on the GEM. Mr. Lam was an INED of Haier Electronics Group Co., Ltd., a company listed on the Main Board of the Stock Exchange until his resignation on 21 June 2007.

Ms. Yeung Mo Sheung, Ann, aged 47, has served as an INED of the Company since October 2012 and is a member of the Nomination Committee, the Remuneration Committee and the Audit Committee. She holds a Bachelor degree of Retail Marketing with honours in the United Kingdom and a Diploma in Marketing from The Chartered Institute of Marketing. She pursued her further study on legal course and has been awarded a Diploma in Legal Practice in the United Kingdom in 1998 and is presently a solicitor of Messrs. Wong & Wong Lawyers, a legal firm in Hong Kong. Ms. Yeung is currently an independent non-executive director and a member of the audit committee of Hao Wen Holdings Limited, a company whose issued shares are listed on the GEM. She is also currently an independent non-executive director, a member of the audit committee, a member of the remuneration committee and a member of the nomination committee of Success Universe Group Limited (formerly known as Macau Success Limited), issued shares of which are listed on the Main Board of the Stock Exchange.

Mr. Lau Ho Wai, Lucas, aged 50, has served as an INED of the Company since April 2006 and is a member of the Nomination Committee, the Remuneration Committee and the Audit Committee. He is a fellow of The Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors. He is also a Registered Professional Surveyor and a practicing chartered surveyor in Hong Kong. He has a Bachelor's degree in Land Economy, a Master's degree in Urban Design, a Bachelor's degree in Laws, a Master's degree in Laws (International Business Law) and a Master's degree of Science in Applied Accounting and Finance and has over 21 years of professional experience in the real estate and finance fields.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Li Dong Fang, aged 38, joined the Group in March 2009, currently holds the position of Factory Manager of the Group's operations in Indonesia. Mr. Li is primarily responsible for the day-to-day maintenance and operation of machinery and equipment of the Group's downstream operations in Indonesia and he will also be responsible for developing the Group's wood processing operation in Indonesia. Prior to joining the Group, he held the position of the technical factory manager of an Indonesian company and has extensive experience in overseeing the maintenance and operation of machinery and equipment in factory operation.

Mr. Lai Yau Hong, Thomson, aged 50, joined the Group in December 2010, is the company secretary of the Company. Mr. Lai has over 21 years of experience in company secretarial duties as well as corporate governance and management fields and has taken up senior management positions in a number of multinational conglomerates and companies listed on the Stock Exchange. He is an associate member of the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has always recognised the importance of the transparency and accountability to shareholders of the Company (the "Shareholders"). It is the belief of the Board that the Shareholders can maximise their benefits from good corporate governance. The Company is committed to maintaining and ensuring high standards of corporate governance in the interests of the Shareholders. Throughout the year ended 31 December 2012, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions under the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules, except for the following deviations from the code provisions of the Code:

Code Provision A.2.1

The Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

There is no separation of the roles of chairman and chief executive officer as set out in the Code Provision A.2.1.

Mr. Cheung Wai Yin, Wilson currently assumes the roles of both the chairman and chief executive officer of the Company. Traditionally, the chief executive officer of the Company also assumes the role of the chairman of the Company because it is believed that the structure of the Board ensures the balance of power and authority therefore no need to segregate the roles of the chairman and chief executive officer of the Company. During the period from 27 January 2011 to 15 May 2012, Mr. Yeh Shuen Ji assumed the role of the chairman of the Company while Mr. Ma Hang Kon, Louis has been assuming the role of the chief executive officer of the Company. Following the resignation of Mr. Yeh Shuen Ji as a non-executive director and the chairman of the Company, Mr. Ma Hang Kon, Louis and his sucessor, Mr. Cheung Wai Yin, Wilson, both of whom have substantial experience that is essential to fulfilling such role, have assumed also the role of the chairman of the Company. At the same time, Mr. Ma and Mr. Cheung have the appropriate management skills and business acumen that are the pre-requisites for assuming the role of the chief executive officer of the Company in the day-to-day management of the Group.

The Board is currently composed of seven directors including three independent non-executive directors (the "INED(s)") with a balance of skills and experience appropriate for the requirements of the Group. Furthermore, the roles of the management of the Company's major operating subsidiaries are performed by other individuals. The balance of power and authority is therefore ensured by the current structure of the Board. Whilst it does not believe that such role separation will improve the corporate performance, the Board, as well as the Company, intends to comply with this code provision by seeking and appointing suitable candidate with appropriate background, acknowledge, experience and calibre to assume the role as the chairman of the Company.

CORPORATE GOVERNANCE REPORT

Code Provision A.4.1

The Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election.

Two of the existing three INED(s) of the Company are not appointed for a specific term but they are subject to retirement by rotation and re-election at the annual general meeting of the Company (the "AGM") in accordance with the articles of association of the Company.

Code Provision A.4.2

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

In accordance with the articles of association of the Company, any director appointed to fill a casual vacancy shall hold office only until the next following AGM and shall then be eligible for re-election.

The Board considers that the Company is in compliance with paragraph 4(2) of Appendix 3 under the GEM Listing Rules and such a deviation is not material as casual vacancy is expected seldom happens and duration between appointment to fill casual vacancy and the immediate following AGM is less than one year and is considered to be short.

Pursuant to the articles of association of the Company, the Chairman and the managing director of the Company shall not be subject to retirement by rotation or also not be taken into account in determining the number of directors to retire in each year. The Board considers that the continuity of the Chairman and his leadership will be essential for the stability of the key management of the Board. On the other hand, the Board will ensure that the directors of the Company other than the Chairman will rotate at least once every three years in order to comply with the Code Provision A.4.2.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has not adopted a code of conduct nor established written guidelines regarding the securities transactions by the directors and relevant employees of the Company but has applied the principles of the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all directors of the Company and the Company is not aware of any non-compliance with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2012.

CORPORATE GOVERNANCE REPORT

THE BOARD

The Board is charged with the responsibility for the promotion of the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith and should take decision objectively in the best interests of the Company.

Matters reserved for the Board's decision include those relating to:

– the strategic direction of the Group;

– the objectives of the Group;

– monitoring the performance of the management of the Group;

– ensuring prudent and effective control measures are in place;

– material bank facilities arrangements;

– material acquisitions and disposals of assets and significant investments;

– material transactions with connected persons;

– material corporate finance transactions including placing or sale of shares or convertible bonds, corporate restructuring, take-over, including approval of the announcements and the circulars;

– reviewing and approving quarterly results, half-yearly results and annual financial statements, declaration of dividends;

– appointment, re-appointment of auditors and determination of their remuneration; and

– reviewing and determination of the terms and remuneration of the Directors.

The management of the Group was delegated the authority and responsibility by the Board for managing the businesses of the Group, with division heads responsible for different aspects of the business. The Board meets at least four times each year and meets as and when required. Appropriate and sufficient information including notices were provided to the Board's members in a timely manner. During the year ended 31 December 2012, the Board held sixteen meetings. The attendance of a director appointed part way during this financial year is stated by reference to the number of meetings held during his/her tenure. The attendance of the Directors at the Board's meetings (either in person or by phone) is set out as follows:

Name of the Directors	Number of attendance
Cheung Wai Yin, Wilson	7/7
Lau Chi Yan, Pierre	7/7
Ma Hang Kon, Louis	15/16
Wong Chi Man	7/7
Lam Kin Kau, Mark	16/16
Lau Ho Wai, Lucas	16/16
Yeung Mo Sheung, Ann	4/4

CORPORATE GOVERNANCE REPORT

During the year, on 15 May 2012, Mr. Wong Shui Lung, Mr. Yeh Shuen Ji and Mr. Bai Baohua resigned as directors of the Company. Mr. Lai Wing Hung resigned as a director of the Company on 22 June 2012. On 24 August 2012 Mr. Cheung Wai Yin, Wilson, Mr. Lau Chi Yan, Pierre and Mr. Wong Chi Man were appointed as directors of the Company. Mr. Fung Hoi Wing, Henry resigned as a director of the Company on 26 October 2012 and Ms. Yeung Mo Sheung, Ann was appointed on the same day as a director of the Company to fill his vacancy. Professor Gong Yao Qian, who was appointed as a director of the Company on 10 July 2012, resigned on 27 November 2012.

The company secretary of the Company is responsible for taking minutes of the Board's meetings and all Board's minutes are open for inspection by the Directors upon reasonable notice. During the year ended 31 December 2012, the company secretary has taken over 15 hours of relevant professional training.

The Directors are enabled, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

Appropriate insurance cover has been arranged in respect of the legal action against the Directors and the management of the Group. The Board considers that the Group has sufficient and appropriate liability insurance to cover the Directors and the management of the Group against any legal liability arising from their performance of duties.

During the year ended 31 December 2012, each Director has ensured that he can give sufficient time and attention to the Company's affairs and has participated in continuous professional development to develop and refresh their knowledge and skills.

Name of Directors	Training received
Cheung Wai Yin, Wilson	Reading materials/in house briefing on regulatory and corporate governance matters
Lau Chi Yan, Pierre	Reading materials/in house briefing on regulatory and corporate governance matters
Ma Hang Kon, Louis	Reading materials/in house briefing on regulatory and corporate governance matters
Wong Chi Man	Reading materials/in house briefing on regulatory and corporate governance matters
Lam Kin Kau, Mark	Reading materials/in house briefing on regulatory and corporate governance matters
Lau Ho Wai, Lucas	Reading materials/in house briefing on regulatory and corporate governance matters
Yeung Mo Sheung, Ann	Reading materials/in house briefing on regulatory and corporate governance matters

BOARD'S COMPOSITION

As at the date of this Annual Report, the Board comprises three executive directors, namely Mr. Cheung Wai Yin, Wilson (also acting as the Chairman and CEO), Mr. Lau Chi Yan, Pierre and Mr. Ma Hang Kon, Louis, one non-executive director, namely Mr. Wong Chi Man and three INEDs, namely Mr. Lam Kin Kau, Mark, Ms. Yeung Mo Sheung, Ann and Mr. Lau Ho Wai, Lucas. The Board has maintained a balance of skills and experience appropriate of the requirements, promotion and development of the businesses of the Group. Its composition represents a mixture of management, technical, marketing, procurement, legal, accounting and finance which is relevant in managing the businesses in which the Group is engaged.

The Company has received annual confirmation of independence from the three INEDs of the Company in accordance with Rule 5.09 of the GEM Listing Rules. The Board has assessed their independence and concluded that all INEDs of the Company are independent within the definition of the GEM Listing Rules.

The Company has complied with Rules 5.05(1), 5.05A and 5.05(2) of the GEM Listing Rules relating to the appointment of a sufficient number of the INEDs and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise throughout the year ended 31 December 2012. The Board currently comprises three INEDs, one of whom has accounting and financial expertise and brings strong independent judgement, knowledge and experience to the Board.

CORPORATE GOVERNANCE REPORT

The Board's members have no financial, business, family or other material/relevant relationships with each other. Such balanced composition of the Board is formed to ensure strong independence exists across the Board and has met the GEM Listing Rules for the Board to have at least one-third in number of its members comprising the INEDs. The biographies of the Directors are set out in the section headed "Directors and Senior Management" in this Annual Report, which demonstrate a diversity of skills, expertise, experience and qualifications.

THE CHAIRMAN AND THE CEO

Presently, Mr. Cheung Wai Yin, Wilson assumes the roles of both the Chairman and the CEO of the Company. The reasons for the deviation from the Code Provision A2.1 under the Code are set out in the section headed "Corporate Governance Practices" above.

RE-ELECTION AND RETIREMENT OF THE DIRECTORS

The articles of association of the Company provide that (i) each Director (except the Chairman and the managing director) is required to retire by rotation and that one-third (or the number nearest to but not greater than one-third) of the Directors shall retire from office by rotation and be eligible for re-election at each AGM of the Company; and (ii) any Director appointed by the Board, either to fill a casual vacancy on or as an addition to the existing Board, will hold office only until the next following AGM of the Company and shall then be eligible for re-election at that meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the INEDs of the Company has filed a written confirmation to the Company confirming his independence pursuant to Rule 5.09 of the GEM Listing Rules and has undertaken to inform the Stock Exchange and the Company as soon as practicable if there is any subsequent change in circumstances which may affect his independence. As at the date of this Annual Report, the Board still considers the INEDs of the Company to be independent. Two of the three INEDs of the Company are not appointed for any specific terms, but they are subject to retirement by rotation and re-election at the AGM of the Company in accordance with the articles of association of the Company.

THE COMPANY SECRETARY

The Company has appointed and employed, on a full time basis, Mr. Lai Yau Hong, Thomson as the company secretary. He is an associate member of the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and is an individual who, by virtue of his professional qualifications and relevant experience, is, in the opinion of the Board, capable of discharging the functions of company secretary. During the year ended 31 December 2012, the company secretary has taken over 15 hours of relevant professional training.

The company secretary is responsible not just for taking minutes of the Board's meetings but also for supporting the board by ensuring good information flow within the Board and that board policy and procedures are followed and for advising the Board through the Chairman and the CEO on governance matters and also for facilitating induction and professional development of directors.

The company secretary reports to the Chairman and the CEO while all directors have access to the advice and services of him to ensure that board procedures, and all applicable law, rules and regulations, are followed.

A physical board meeting is required to be held to discuss and approve any change in the company secretary.

BOARD COMMITTEES

The Board has established three committees, namely the Nomination Committee, the Remuneration Committee and the Audit Committee, with clearly defined written terms of reference. The main roles and responsibilities of these three committees, including all authorities delegated to them by the Board, as set out in the terms of reference, are published on the Company's website at www.merdeka.com.hk. The different committees' independent views and recommendations not only ensure proper control of the Group but also the continual achievement of the high corporate governance standards expected of a listed company. The chairman of each committee reports the outcome of the committee's meetings to the Board for further discussion and approval.

CORPORATE GOVERNANCE REPORT

Nomination Of The Directors

On 22 March 2012, the Company established the Nomination Committee with specific written terms of reference in line with the code provisions under the Code.

The responsibilities and authorities of the Nomination Committee include such responsibilities and authorities set out in the relevant code provisions of the Code and its duties include: (i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iii) to assess the independence of INEDs; and (iv) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the CEO.

The Nomination Committee will at all times, have a minimum of three members, a majority of which shall be INEDs and presently consists of five members comprising three INEDs, namely Mr. Lam Kin Kau, Mark, Ms. Yeung Mo Sheung, Ann and Mr. Lau Ho Wai, Lucas, and two executive directors, namely Mr. Cheung Wai Yin, Wilson and Mr. Lau Chi Yan, Pierre. The chairman of the Nomination Committee is elected by the members who are present at the meeting.

During the year ended 31 December 2012, Mr. Lai Wing Hung and Mr. Fung Hoi Wing, Henry ceased to be members of the Nomination Committee on 22 June 2012 and 26 October 2012 respectively upon their respective resignations as directors of the Company. Mr. Ma Hang Kon, Louis ceased to be a member of the Nomination Committee on 24 August 2012 following the appointments of Mr. Cheung Wai Yin, Wilson and Mr. Lau Chi Yan, Pierre as directors of the Company and members of the Nomination Committee on that day.

The Nomination Committee will meet as and when required to discharge its responsibilities, but not less than once a year. During the year ended 31 December 2012, the Nomination Committee held five meetings. The attendance of a member appointed as a director part way during this financial year is stated by reference to the number of meetings held during his/her tenure. The attendance of the members of the Nomination Committee at the Nomination Committee's meetings (either in person or by phone) is set out as follows:

Name of the members of the Nomination Committee	Number of attendance
Cheung Wai Yin, Wilson	2/2
Lau Chi Yan, Pierre	2/2
Lam Kin Kau, Mark	5/5
Lau Ho Wai, Lucas	1/1
Yeung Mo Sheung, Ann	5/5

For the year ended 31 December 2012, the members of the Nomination Committee have reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on proposed changes to the Board to complement the Company's corporate strategy. The Nomination Committee also identified and selected individuals suitably qualified to become Directors of the Company and make recommendations to the Board on the respective appointment of individuals nominated for directorships.

The Nomination Committee has assessed the independence of INEDs for the year ended 31 December 2012.

During the year ended 31 December 2012, the Nomination Committee was provided with sufficient resources to perform its duties and responsibilities and at the Company's expense to seek independent professional advice, where and when necessary.

CORPORATE GOVERNANCE REPORT

Remuneration of the Directors

Pursuant to the requirements of the GEM Listing Rules, the Company has established the Remuneration Committee in 2005 with specific written terms of reference in line with the code provisions under the Code. The Remuneration Committee is mainly responsible for (i) making recommendations to the Board on the policy and structure for the remuneration of the directors and the senior management of the Group; (ii) reviewing the remuneration package including the performance-based bonus and incentive rewards for the executive Directors and the senior management of the Group; and (iii) reviewing and making recommendations to the Board the compensation, if any, payable to the executive directors and senior management in connection with any loss or termination of their office or appointment.

The Remuneration Committee for the year ended 31 December 2012 consisted of five members comprising three INEDs, namely Mr. Lam Kin Kau, Mark, Ms. Yeung Mo Sheung, Ann and Mr. Lau Ho Wai, Lucas, and two executive directors, namely Mr. Cheung Wai Yin, Wilson and Mr. Lau Chi Yan, Pierre. The chairman of the Remuneration Committee is elected by the members who are present at the meeting.

During the year ended 31 December 2012, Mr. Lai Wing Hung and Mr. Fung Hoi Wing, Henry ceased to be members of the Remuneration Committee on 22 June 2012 and 26 October 2012 respectively upon their respective resignations as directors of the Company. Mr. Ma Hang Kon, Louis ceased to be a member of the Remuneration Committee on 24 August 2012 following the appointments of Mr. Cheung Wai Yin, Wilson and Mr. Lau Chi Yan, Pierre as directors of the Company and members of the Remuneration Committee on that day.

During the year ended 31 December 2012, the Remuneration Committee held five meetings. The attendance of a member appointed as a director part way during this financial year is stated by reference to the number of meetings held during his/her tenure. The attendance of the members of the Remuneration Committee at the Remuneration Committee's meetings (either in person or by phone) is set out as follows:

Name of the members of the Remuneration Committee	Number of attendance
Cheung Wai Yin, Wilson	1/1
Lau Chi Yan, Pierre	1/1
Lam Kin Kau, Mark	5/5
Lau Ho Wai, Lucas	5/5
Yeung Mo Sheung, Ann	0/0

At least one of such meetings, the current framework, policies and structure for the remuneration of the directors and the senior management of the Group was reviewed by the members of the Remuneration Committee who reported to the Board of their reviews with recommendations. The Remuneration Committee also reviewed the specific remuneration packages including the terms of employment, incentive rewards and performance-based bonus of the executive Directors and the senior management of the Group and the fees payable to the INEDs of the Company.

The primary objective of the Group's remuneration policy is to retain and motivate the executive Directors and the senior management of the Group by linking their rewards to the corporate and individual performance, job complexity and responsibilities, so that the interests of the executive Directors are aligned with those of the Shareholders. No Director can, however, approve his/her own remuneration.

In order to attract, retain and motivate the executives and the employees serving for the Group, the Company has adopted the share option schemes in 2002 and 2012. The share option schemes enable the eligible participants to obtain an ownership interest in the Company by payment of the exercise price with reference to the market price of the Shares at the time of grant and thus to reward to the participants who contribute to the success of the Group's operations.

Details of the amount of the Directors' emoluments are set out in note 11 to the financial statements in this Annual Report and details of the share option schemes adopted by the Company on 20 February 2002 and 3 May 2012 are set out in the section headed "Report of the Directors" in this Annual Report.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Company has established the Audit Committee in 2001 with specific written terms of reference formulated in accordance with the requirements of the GEM Listing Rules. The primary duties of the Audit Committee are to ensure the objectivity and credibility of the Company's financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

The Audit Committee consisted of three members comprising three INEDs, namely Mr. Lam Kin Kau, Mark, Ms. Yeung Mo Sheung, Ann and Mr. Lau Ho Wai, Lucas for the year ended 31 December 2012, one of whom is a qualified accountant and has extensive experience in accounting and financial matters. The chairman of the Audit Committee is elected by the members who are present at the meeting. All members of the Audit Committee hold the relevant industry or legal, accounting and financial experience necessary to give advice on the Board's strategies and other related matters. All members of the Audit Committee have complete and unrestricted access to the external auditors and all employees of the Company.

The Audit Committee is mainly responsible for (i) reviewing the Company's quarterly results, half-yearly results and annual financial statements and making recommendations as to the approval of the Company's quarterly results, half-yearly results and annual financial statements by the Board; (ii) reviewing and making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and the terms of engagement including the remuneration of the external auditors; (iii) discussing with the external auditors the nature and scope of the audit; (iv) monitoring and assessing the independence and objectivity of the external auditors and the effectiveness of the audit process in accordance with applicable standards; (v) reviewing and monitoring financial reporting and the reporting judgement contained in them; and (vi) reviewing financial and internal control (including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget), accounting policies and practices with the management of the Group, and internal and external auditors of the Company.

During the year ended 31 December 2012, the Audit Committee held five meetings. The attendance of a member appointed as a director part way during this financial year is stated by reference to the number of meetings held during his/her tenure. The attendance of the members of the Audit Committee at the Audit Committee's meetings (either in person or by phone) is set out as follows:

Name of the members of the Audit Committee	Number of attendance
Lam Kin Kau, Mark	5/5
Lau Ho Wai, Lucas	5/5
Yeung Mo Sheung, Ann	2/2

During the year ended 31 December 2012, Mr. Fung Hoi Wing, Henry ceased accordingly to be a member of the Audit Committee on 26 October 2012 upon his resignation as a director of the Company. Ms. Yeung Mo Sheung, Ann was appointed a member of the Audit Committee on 26 October 2012 following her appointment as a director of the Company on that day.

During the year ended 31 December 2012, the Audit Committee has carried out its primarily responsible for making recommendations to the board on the appointment of Messrs. Elite Partners CPA Limited, the existing external auditor, and to approve the remuneration and terms of engagement of the existing external auditor, and the questions of the resignation of Messrs. Crowe Horwath (HK) CPA Limited, the former external auditors.

For the year ended 31 December 2012, the members of the Audit Committee have met with the Group's external auditors to discuss the annual audit plan. The meeting of the Audit Committee was attended by the members of the Audit Committee and the external auditors of the Company. The external auditors also made presentations to the Audit Committee on the findings on key issues addressed in the annual audit.

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2012, the Audit Committee reviewed the accounting principles and practices adopted by the Company and discussed with the management of the Group the financial reporting matters. The Audit Committee also reviewed the internal control and risk management system of the Group with the internal auditor. The Audit Committee also reviewed the quarterly results for the period ended 31 March 2012 and 30 September 2012, the half-yearly results for the period ended 30 June 2012 and the annual results for year ended 31 December 2012 of the Company, and confirmed that the preparation of such complied with the applicable accounting principles and practices adopted by the Company, the requirements of the Stock Exchange and adequate disclosures has been made, before announcement of these results.

The Audit Committee recommended to the Board to review the re-appointment of Messrs. Elite Partners CPA Limited, who was appointed on the Extraordinary General Meeting held on 6 February 2013, as the Company's external auditors subject to the Shareholders' approval at the forthcoming AGM of the Company.

AUDITORS' REMUNERATION

During the year ended 31 December 2012, the remuneration paid/payable to the external auditors of the Group, Elite Partners CPA Limited, is set out as follows:

Services rendered	**Fees paid/payable** HK$'000
Audit services	550

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

The statement of the external auditors of the Company, Messrs. Elite Partners CPA Limited, with regard to their reporting responsibilities on the Company's financial statements is set out in the section headed "Independent Auditors' Report" in this Annual Report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to the events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Board therefore continues to adopt the going concern approach in preparing the accounts.

INTERNAL CONTROL AND INTERNAL AUDIT

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control system and reviewing their effectiveness. The Group's internal control system has been designed for safeguarding assets, maintaining proper accounting records and ensuring reliability of the financial information. Through the Company's internal audit team, the Board has conducted a review of the effectiveness of the internal control system of the Group which covers all material controls, including operational, financial and compliance controls and risk management functions.

The internal audit team of the Company reviews the major operational, financial and compliance controls and risk management functions of the Group on a continuing basis and aims to cover all major operations of the Group on a rotational basis. The internal audit team of the Company presents their internal audit plan annually to the CEO for approval and they also discuss and agree their audit plan with the Audit Committee at the Audit Committee's meeting.

CORPORATE GOVERNANCE REPORT

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 58 of the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

SENDING ENQUIRIES TO THE BOARD

Shareholders may send written enquiries to the Company, for the attention of company secretary at the Company's head office and principal place of business in Hong Kong.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

Article 86(2) of the Articles sets out that the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board, subject to the Articles and the Companies Law of the Cayman Islands.

Pursuant to Article 88 of the Articles, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a written notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a written notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such written notice(s) are given, shall be at least seven (7) days and that the period for lodgement of such written notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company is committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders and investors and discloses information in compliance with the GEM Listing Rules, and publishes periodic reports and announcements to the public in accordance with the relevant laws and regulations.

The Board strives to encourage and maintain constant dialogue with its shareholders through various means. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries. The Company also updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports.

The corporate website of the Company has provided an effective communication platform to the shareholders and the investors as well as the general publics.

During the year under review, there is no change in the Company's constitutional documents.

REPORT OF THE DIRECTORS

The directors of the Company present their report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The subsidiaries are engaged in the forestry business, plantation business and trading business. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 91.

The directors do not recommend payment of any dividend for the year (2011: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial periods/years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 92. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the year, together with the reasons therefor, are set out in notes 28, 29 and 27 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2012.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$33,757,000 (2011: HK$500,529,000). This included the Company's share premium account amounting to approximately HK$703,864,000 (2011: HK$555,588,000) which is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers, respectively, during the financial year is as follows:

	Percentage of the Group's total sales	
	2012	2011
Largest customer	**100%**	78%
Five largest customers	**100%**	100%

	Percentage of the Group's total purchase	
	2012	2011
Largest supplier	**100%**	100%
Five largest suppliers	**100%**	100%

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

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2012 and up to the date of this Annual Report were as follows:

Executive Directors:

Cheung Wai Yin, Wilson	(Appointed on 24 August 2012)
Lau Chi Yan, Pierre	(Appointed on 24 August 2012)
Ma Hang Kon, Louis	
Lai Wing Hung	(Resigned on 22 June 2012)
Wong Shui Lung	(Resigned on 15 May 2012)
Gong Yao Qian	(Appointed on 10 July 2012 and resigned on 27 November 2012)

Non-executive Directors:

Wong Chi Man	(Appointed on 24 August 2012)
Yeh Shuen Ji	(Resigned on 15 May 2012)
Bai Baohua	(Resigned on 15 May 2012)

Independent non-executive Directors:

Lam Kin Kau, Mark	
Lau Ho Wai, Lucas	
Yeung Mo Sheung, Ann	(Appointed on 26 October 2012)
Fung Hoi Wing, Henry	(Resigned on 26 October 2012)

In accordance with article 87 of the Company's articles of association, Mr. Lam Kin Kau, Mark, being the longest in office since his last re-election in the year 2011 have to retire at the forthcoming AGM of the Company and being eligible, he offer himself for re-election at the forthcoming AGM of the Company.

In accordance with article 86(3) of the Company's articles of association, Mr. Cheung Wai Yin, Wilson, Mr. Lau Chi Yan, Pierre, Mr. Wong Chi Man and Ms. Yeung Mo Sheung, Ann, all being additional directors, appointed by the board will hold office until the next following annual general meeting of the Company, and being eligible, they offer themselves for re-election at the forthcoming annual general meeting of the Company.

Two out of the three INEDs of the Company are not appointed for any specific terms. According to the articles of association of the Company, all Directors (except the Chairman and the managing director) are subject to retirement by rotation and re-election at the annual general meeting of the Company.

The Company has received from each of the INEDs of the Company an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and, as at the date of this Annual Report, still considers them to be independent.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 13 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

Two of the three INEDs was not appointed for any specified length of service with the Company but is subject to retirement by rotation in accordance with the Company's articles of association. One of the INEDs has entered into an appointment letter with the Company for a term of one year.

The non-executive Director has entered into an appointment letter with the Company for a term of two years.

The three executive Directors, namely Mr. Cheung Wai Yin, Wilson, Mr. Lau Chi Yan, Pierre and Mr. Ma Hang Kon, Louis have each entered into a two-year service contract with the Company commencing from 23 November 2010 (Mr. Ma Hang Kon, Louis) and 24 August 2012 (for both Mr. Cheung Wai Yin, Wilson and Mr. Lau Chi Yan, Pierre) respectively.

No Director had a service contract with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2012.

SHARE OPTION SCHEME

The Company's old share option scheme, which was effective on 7 March 2002 (the "Old Share Option Scheme"), expired on 6 March 2012. All the outstanding share options thereunder, a total of 307,000,000 share options, were lapsed because of the expiry of the option period. The new share option scheme of the Company (the "New Share Option Scheme") was adopted by the shareholders of the Company and was effective on 3 May 2012, when the annual general meeting was held. Unless otherwise cancelled or amended, the New Share Option Scheme will remain in force for a period of 10 years from the date of its adoption.

As at 31 December 2012, there were 83,500,000 share options outstanding under the New Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 83,500,000, which represents approximately 0.97% and 0.91% of the total issued share capital of the Company as at 31 December 2012 and the date of this report respectively.

REPORT OF THE DIRECTORS

Details of the movements of the share options under the Old Share Option Scheme and the New Share Option Scheme during the year were as follows:

	Number of share options								
Name or category of the participants	Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 31 December 2012	Date of grant of the share options	Exercise period of the share options	Exercise price of the share options (Note 1) HK$ per share	Price of the shares before the date of grant (Note 2) HK$ per share
Executive directors									
Ma Hang Kon, Louis	40,000,000	–	–	(40,000,000)	–	24/1/2011	24/10/2011 – 6/3/2012	0.078	0.076
	–	60,000,000	–	–	60,000,000	30/5/2012	30/5/2012 – 29/5/2022	0.017	0.017
Wong Shui Lung (Note 3)	20,000,000	–	–	(20,000,000)	–	6/4/2011	24/10/2011 – 6/3/2012	0.143	0.127
	60,000,000	60,000,000	–	(60,000,000)	60,000,000				
Non-executive directors									
Yeh Shuen Ji (Note 3)	20,000,000	–	–	(20,000,000)	–	6/4/2011	24/10/2011 – 6/3/2012	0.143	0.127
Bai Baohua (Note 3)	20,000,000	–	–	(20,000,000)	–	6/4/2011	24/10/2011 – 6/3/2012	0.143	0.127
	40,000,000	–	–	(40,000,000)	–				
Independent non-executive directors									
Fung Hoi Wing, Henry (Note 4)	3,500,000	–	–	(3,500,000)	–	7/7/2009	11/8/2009 – 6/3/2012	0.160	0.157
	–	3,500,000	–	–	3,500,000	30/5/2012	30/5/2012 – 29/5/2022	0.017	0.017
Lau Ho Wai, Lucas	3,500,000	–	–	(3,500,000)	–	7/7/2009	11/8/2009 – 6/3/2012	0.160	0.157
	–	3,500,000	–	–	3,500,000	30/5/2012	30/5/2012 – 29/5/2022	0.017	0.017
Lam Kin Kau, Mark	3,500,000	–	–	(3,500,000)	–	7/7/2009	11/8/2009 – 6/3/2012	0.160	0.157
	–	3,500,000	–	–	3,500,000	30/5/2012	30/5/2012 – 29/5/2022	0.017	0.017
	10,500,000	10,500,000	–	(10,500,000)	10,500,000				

REPORT OF THE DIRECTORS

Name or category of the participants	Number of share options: Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 31 December 2012	Date of grant of the share options	Exercise period of the share options	Exercise price of the share options (Note 1) HK$ per share	Price of the shares before the date of grant (Note 2) HK$ per share
Employees and other eligible participants									
Employees	3,000,000	–	–	(3,000,000)	–	24/1/2011	24/10/2011 – 6/3/2012	0.078	0.076
	4,000,000	–	–	(4,000,000)	–	6/4/2011	24/10/2011 – 6/3/2012	0.143	0.127
	–	13,000,000	–	–	13,000,000	30/5/2012	30/5/2012 – 29/5/2022	0.017	0.017
Other eligible participants	9,500,000	–	–	(9,500,000)	–	7/7/2009	7/7/2009 – 6/3/2012	0.160	0.157
	180,000,000	–	–	(180,000,000)	–	7/7/2009	11/8/2009 – 6/3/2012	0.160	0.157
	196,500,000	13,000,000	–	(196,500,000)	13,000,000				
	307,000,000	83,500,000	–	(307,000,000)	83,500,000				

Notes:

1. The exercise price of the share options is subject to adjustment in the case of capitalisation issue, rights issue, subdivision or consolidation of the shares of the Company, or other similar changes in the Company's share capital.

2. The price of the shares of the Company before the date of the grant of the share options is the closing price of the shares of the Company as quoted on the Stock Exchange on the trading day immediately before the date on which the share options were granted.

3. These directors resigned on 15 May 2012.

4. The director resigned on 26 October 2012.

REPORT OF THE DIRECTORS

During the year ended 31 December 2012, a total of 83,500,000 share options were granted by the Company on 30 May 2012 under the New Share Option Scheme, among which 70,500,000 share options were granted to four directors (one of whom resigned on 26 October 2012) of the Company. Upon acceptance of the share option offers, the grantees paid HK$1 to the Company as consideration for each offer. The directors of the Company have estimated the following theoretical valuations of the said 83,500,000 share options granted under the New Share Option Scheme during the period, calculated using the Black-Scholes option pricing model which is a generally accepted method of valuing share options as at the date of grant of the share options:

Name of grantees		Number of share options granted during the period	Theoretical value of the share options HK$
Ma Hang Kon, Louis		60,000,000	699,881
Lau Ho Wai, Lucas		3,500,000	40,826
Lam Kin Kau, Mark		3,500,000	40,826
Fung Hoi Wing, Henry	(resigned as a director of the Company on 26 October 2012)	3,500,000	40,826
Others		13,000,000	151,641
		83,500,000	974,000

The fair value of the share options granted during the year ended 31 December 2012 was approximately HK$974,000 (2011: HK$2,880,280) of which the Group recognised a share option expense of approximately HK$974,000 (2011: HK$2,880,280) during the year.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	–
Expected volatility (%)	89.4
Historical volatility (%)	89.4
Risk-free interest rate (%)	0.52
Expected life of share options (year)	5
Closing share price at grant date (HK$)	0.017

The expected life of the share options is based on management expectation and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

REPORT OF THE DIRECTORS

As at the date of this report, 595,000,000 share options were granted subsequent to the balance sheet date on 17 January 2013, among which 100,000,000 share options were granted to four directors. 93,500,000 and 495,000,000 share options were exercised on 18 January 2013 and 1 February 2013 respectively, whereas 4,000,000 share options were lapsed on 1 February 2013. As a result, the Company had 86,000,000 share options outstanding under the New Share Option Scheme, which represented approximately 0.94% of the shares in issue as at that date.

Save as disclosed above, at the date of this report, no other share options were exercised subsequent to the balance sheet date.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2012, the directors and chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

Interests and short positions in the shares and the underlying shares of the share options and the convertible bonds of the Company as at 31 December 2012

(i) Long positions in the shares of the Company:

	Number of the shares interested and nature of interest			
Name of directors	Personal	Corporate	Total	Approximate percentage of the total issued share capital of the Company (%)
Cheung Wai Yin, Wilson (Note)	–	1,500,000,000	1,500,000,000	17.49
Ma Hang Kon, Louis	9,800,000	–	9,800,000	0.11

Note: Mr. Cheung Wai Yin, Wilson, through Ivana, which is controlled by him through his 100% direct interests in it, has on 14 August 2012 obtained these shares from MCL, a company which is 100% held by Mr. Ma Hang Kon, Louis.

REPORT OF THE DIRECTORS

(ii) Long positions in the underlying shares of the share options granted under the share option scheme of the Company:

Name of directors	Date of grant of the share options	Exercise period of the share options	Exercise price per share HK$	Number of the share options outstanding	Number of the total underlying shares	Approximate percentage of the total issued share capital of the Company (%)
Ma Hang Kon, Louis	30/5/2012	30/5/2012–29/5/2022	0.017	60,000,000	60,000,000	0.70
Lau Ho Wai, Lucas	30/5/2012	30/5/2012–29/5/2022	0.017	3,500,000	3,500,000	0.04
Lam Kin Kau, Mark	30/5/2012	30/5/2012–29/5/2022	0.017	3,500,000	3,500,000	0.04

(iii) Long positions in the underlying shares of the convertible bonds of the Company:

Name of the holder of the convertible bonds	Principal amount of the convertible bonds HK$	Number of the total underlying shares	Approximate percentage of the total issued share capital of the Company (%)
Cheung Wai Yin, Wilson (Note)	189,880,000	1,898,800,000	22.13

Note: Mr. Cheung Wai Yin, Wilson has on 14 August 2012 obtained from MCL these convertible bonds through Ivana which is controlled by him through his 100% direct interests in Ivana. These convertible bonds (originally due on 12 August 2011 and extended to 12 August 2014) were issued by the Company to MCL on 12 August 2008 as part of the consideration to acquire the forestry business. They are unlisted, interest-free and convertible into the shares of the Company at the conversion price of HK$0.10 per share of the Company (subject to adjustment according to the terms of the convertible bonds).

Save as disclosed above, as at 31 December 2012, none of the directors and chief executive of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' Interests in Shares and Underlying Shares" and "Share Option Scheme" above, at no time during the year ended 31 December 2012 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the directors and chief executive of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2012, the following persons (not being the directors or chief executive of the Company) 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 Divisions 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:

(i) Long positions in the shares of the Company:

Name of shareholders	Capacity and nature of interest	Notes	Number of the shares interested	Approximate percentage of the total issued share capital of the Company (%)
Ivana	Directly beneficially owned	1	1,500,000,000	17.49
Manistar Enterprises Limited ("Manistar")	Directly beneficially owned		1,331,764,070	15.52
CCT Capital International Holdings Limited	Through a controlled corporation	2	1,331,764,070	15.52
CCT Telecom Holdings Limited ("CCT Telecom")	Through a controlled corporation	2	1,331,764,070	15.52
Mak Shiu Tong, Clement	Through a controlled corporation	2 and 3	1,331,764,070	15.52

Notes:

1. Ivana has financial arrangement with Good Profit Capital Limited ("Good Profit") over these 1,500,000,000 shares, in which Good Profit has security interest over the same block of 1,500,000,000 shares. Mr. Au Yik Fei and Mr. Fung Hon Leung are deemed to be interested in such shares of the Company under the SFO as each of them is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Good Profit through his controlling interest in the shareholding of Good Profit as at 31 December 2012.

2. The shares of the Company were held by Manistar, which is wholly-owned by CCT Capital International Holdings Limited which in turn is a wholly-owned subsidiary of CCT Telecom.

3. The interest disclosed represents 1,331,764,070 shares of the Company beneficially held by Manistar, an indirect wholly-owned subsidiary of CCT Telecom. Mr. Mak Shiu Tong, Clement is deemed to be interested in such shares of the Company under the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of CCT Telecom through his controlling interest in the shareholding of CCT Telecom as at 31 December 2012.

REPORT OF THE DIRECTORS

(ii) Long positions in the underlying shares of the convertible bonds of the Company:

Name of the holder of the convertible bonds	Principal amount of the convertible bonds HK$	Number of the total underlying shares	Approximate percentage of the total issued share capital of the Company (%)
Ivana	189,880,000	1,898,800,000	22.13

Note: Ivana has on 14 August 2012 obtained from MCL these convertible bonds (originally due on 12 August 2011 and extended to 12 August 2014), which were issued by the Company to MCL on 12 August 2008 as part of the consideration to acquire the forestry business. They are unlisted, interest-free and convertible into the shares of the Company at the conversion price of HK$0.10 per share of the Company (subject to adjustment according to the terms of the convertible bonds).

Save as disclosed above, the directors and chief executive of the Company are not aware that there is any party who, as at 31 December 2012, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the code provisions set out in the Code set out in Appendix 15 to the GEM Listing Rules throughout the financial year under review, except for the deviations from Code Provisions A.2.1, A.4.1 and A.4.2. Detailed information of such deviations and their respective considered reasons as well as other information on the corporate governance practices of the Company are set out in the section headed “Corporate Governance Report” in this Annual Report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float of not less than 25% of the total issued share capital of the Company as required under the GEM Listing Rules throughout the financial period under review and up to the date of this Annual Report.

REPORT OF THE DIRECTORS

AUDITORS

On 24 December 2010, Ernst & Young resigned as auditors of the Company and Crowe Horwath (HK) CPA Limited (“Crowe Horwath”) was appointed to fill the casual vacancy. Crowe Horwath was reappointed as auditors of the Company at the AGMs held on 24 June 2011 and 3 May 2012 respectively. On 20 December 2012, Crowe Horwath resigned as auditors of the Company. Elite Partners CPA Limited (“Elite Partners”) was appointed as the auditors of the Company at the extraordinary general meeting held on 6 February 2013.

The consolidated financial statements for the year ended 31 December 2012 have been audited by Elite Partners, who will retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming AGM of the Company.

ON BEHALF OF THE BOARD

Cheung Wai Yin, Wilson
Chairman and Chief Executive Officer

Hong Kong
22 March 2013

Independent Auditor's Report

開元信德會計師事務所有限公司
ELITE PARTNERS CPA LIMITED
Certified Public Accountants

To the shareholders of Merdeka Resources Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Merdeka Resources Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 38 to 91, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

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 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong, 22 March 2013

Yip Kai Yin
Practising Certificate Number P05131

Suites 921-921A, 9/F., Star House
3 Salisbury Road, Tsim Sha Tsui
Kowloon, Hong Kong

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	7	**7,909**	8,891
Cost of sales		**(7,742)**	(8,096)
Gross profit		**167**	795
Other income and other net gain	7	**440**	43
Operating expenses		**(19,282)**	(19,135)
Administrative expenses		**(11,973)**	(15,862)
Impairment of forest concessions		**(560,000)**	–
Impairment of property, plant and equipment		**(16,000)**	–
Biological assets written off		**(9,579)**	–
Change in fair value of biological assets less cost to sell		**–**	2,944
Equity-settled share option expenses		**(974)**	(2,880)
Loss from operations		**(617,201)**	(34,095)
Finance costs	10	**(26,872)**	(35,431)
LOSS BEFORE TAX	8	**(644,073)**	(69,526)
Income tax	13	**–**	–
LOSS FOR THE YEAR		**(644,073)**	(69,526)
Attributable to:			
Owners of the Company	14	**(613,037)**	(67,157)
Non-controlling interests		**(31,036)**	(2,369)
LOSS FOR THE YEAR		**(644,073)**	(69,526)
LOSS PER SHARE			
Basic and diluted	16	**(HK8.0 cents)**	(HK1.2 cents)

Details of dividends payable to owners of the Company for the year are set out in note 15.

The notes on pages 44 to 91 form part of these financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
LOSS FOR THE YEAR	**(644,073)**	(69,526)
Other comprehensive loss:		
Exchange difference on translating of financial statements of overseas subsidiaries	**(6)**	(21)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(644,079)**	(69,547)
Total comprehensive loss attributable to:		
Owners of the Company	**(613,043)**	(67,178)
Non-controlling interests	**(31,036)**	(2,369)
	(644,079)	(69,547)

The notes on pages 44 to 91 form part of these financial statements.

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**13,106**	39,424
Forest concessions	18	**269,811**	829,811
Biological assets	19	**–**	9,579
Total non-current assets		**282,917**	878,814
Current assets			
Trade receivables	21	**2,365**	2,878
Prepayments, deposits and other receivables	22	**26,498**	2,314
Inventories	23	**–**	1,914
Cash and cash equivalents	24	**2,620**	35,681
Total current assets		**31,483**	42,787
Total assets		**314,400**	921,601
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Issued capital	28	**85,786**	63,786
Reserves	30(a)	**30,016**	516,808
		115,802	580,594
Non-controlling interests		**4,336**	35,372
Total equity		**120,138**	615,966
Non-current liabilities			
Convertible bonds	27	**189,705**	304,111
Current liabilities			
Other payables and accruals	25	**4,557**	1,524
Total liabilities		**194,262**	305,635
Total equity and liabilities		**314,400**	921,601
Net current assets		**26,926**	41,263
Total assets less current liabilities		**309,843**	920,077

Cheung Wai Yin, Wilson
Director

Ma Hang Kon, Louis
Director

The notes on pages 44 to 91 form part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

		Attributable to owners of the Company									
	Notes	Issued capital	Share premium account	Contributed surplus	Equity component of convertible bonds	Share option reserve	Exchange fluctuation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011		53,281	463,568*	66,710*	95,614*	12,915*	49*	(266,137)*	426,000	37,741	463,741
Changes in equity for 2011:											
Loss for the year		–	–	–	–	–	–	(67,157)	(67,157)	(2,369)	(69,526)
Other comprehensive loss		–	–	–	–	–	(21)	–	(21)	–	(21)
Total comprehensive loss		–	–	–	–	–	(21)	(67,157)	(67,178)	(2,369)	(69,547)
Issue of new shares upon conversion of convertible bonds	27, 28	10,000	89,629	–	(15,395)	–	–	–	84,234	–	84,234
Gain on extinguishment of convertible bonds	27	–	–	–	(28,487)	–	–	161,226	132,739	–	132,739
Equity-settled share option arrangements	29	–	–	–	–	2,880	–	–	2,880	–	2,880
Issue of new shares upon exercise of share options	28, 29	505	2,391	–	–	(977)	–	–	1,919	–	1,919
Forfeiture of share options	29	–	–	–	–	(327)	–	327	–	–	–
At 31 December 2011 and 1 January 2012		63,786	555,588*	66,710*	51,732*	14,491*	28*	(171,741)*	580,594	35,372	615,966
Changes in equity for 2012:											
Loss for the year		–	–	–	–	–	–	(613,037)	(613,037)	(31,036)	(644,073)
Other comprehensive loss		–	–	–	–	–	(6)	–	(6)	–	(6)
Total comprehensive loss		–	–	–	–	–	(6)	(613,037)	(613,043)	(31,036)	(644,079)
Issue of new shares upon conversion of convertible bonds	27, 28	18,000	146,276	–	(22,999)	–	–	–	141,277	–	141,277
Equity-settled share option arrangements	29	–	–	–	–	974	–	–	974	–	974
Issue of new shares (share-based payments)	28	4,000	2,000	–	–	–	–	–	6,000	–	6,000
Forfeiture of share options	29	–	–	–	–	(14,491)	–	14,491	–	–	–
At 31 December 2012		85,786	703,864*	66,710*	28,733*	974*	22*	(770,287)*	115,802	4,336	120,138

* These reserve accounts comprise the consolidated reserves of approximately HK$30,016,000 (2011: HK$516,808,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(644,073)**	(69,526)
Adjustments for:			
Finance costs	10	**26,872**	35,431
Interest income	7	**(145)**	(39)
Depreciation	17	**7,201**	7,185
Loss on disposal of property, plant and equipment		**1,089**	5
Gain on disposal of property, plant and equipment		**(127)**	–
Amortisation of forest concessions	18	**–**	3,724
Impairment of forest concessions	18	**560,000**	–
Impairment of property, plant and equipment	17	**16,000**	–
Impairment of prepayments, deposits and other receivables	22	**1,701**	–
Biological assets written off	19	**9,579**	–
Inventories written off	23	**1,914**	–
Fair value gain on biological assets	19	**–**	(2,944)
Equity-settled share option expenses	29	**974**	2,880
		(19,015)	(23,284)
Decrease/(increase) in trade receivables		**513**	(2,878)
(Increase)/decrease in prepayments, deposits and other receivables		**(19,885)**	3,637
Increase in inventories		**–**	(1,914)
Increase/(decrease) in other payables and accruals		**3,026**	(894)
Net cash flows used in operating activities		**(35,361)**	(25,333)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**145**	39
Purchases of property, plant and equipment	17	**–**	(9,513)
Proceeds from disposal of property, plant and equipment		**2,155**	–
Net cash flows from/(used in) investing activities		**2,300**	(9,474)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options		**–**	1,919
Net cash flows from financing activities		**–**	1,919
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(33,061)**	(32,888)
Cash and cash equivalents at beginning of year		**35,681**	68,569
Effect of foreign exchange rate changes, net		**–**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	**2,620**	35,681

Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	20	**381,085**	957,573
Current assets			
Prepayments, deposits and other receivables	22	**6,027**	81
Cash and cash equivalents	24	**48**	24,047
Total current assets		**6,075**	24,128
Total assets		**387,160**	981,701
EQUITY AND LIABILITIES			
Issued capital	28	**85,786**	63,786
Reserves	30(b)	**81,667**	584,955
Total equity		**167,453**	648,741
Non-current liabilities			
Convertible bonds	27	**189,705**	304,111
Current liabilities			
Other payables and accruals	25	**3,210**	240
Due to subsidiaries	20	**26,792**	28,609
Total current liabilities		**30,002**	28,849
Total liabilities		**219,707**	332,960
Total equity and liabilities		**387,160**	981,701
Net current liabilities		**(23,927)**	(4,721)
Total assets less current liabilities		**357,158**	952,852

Cheung Wai Yin, Wilson
Director

Ma Hang Kon, Louis
Director

The notes on pages 44 to 91 form part of these financial statements.

Notes to the Financial Statements

31 December 2012

1. CORPORATE INFORMATION

The Company is a limited company incorporated in the Cayman Islands, its registered office is located at the offices of Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is located at Units 5-6, 7th Floor, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui, Kowloon, Hong Kong.

The directors consider that the Company's ultimate controlling parent company is Ivana Investments Limited, which is not a listed company and does not produce consolidated financial statements available for public use.

During the year ended 31 December 2012, the principal activity of the Company was investment holding. The principal activities of the subsidiaries comprised trading business, forestry business and plantation business.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 4 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– biological assets (see note 3(e))

These financial statements are presented in Hong Kong Dollars ("HK$"), rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

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

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 5.

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Group, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

Changes in the Group's ownership interests in existing subsidiaries
Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Company's statement of financial position, an investment in a subsidiary is carried at cost less impairment losses (see note 3(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Business combinations

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

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

- a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12 Income Tax;

- assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee Benefits;

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

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

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

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

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

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Business combinations (Continued)

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

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

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

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

(d) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 3(i)).

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Plant and machinery	12.5% to 20%
Roads and bridges	20%
Leasehold improvement	20%
Computer and office equipment	20% to 33%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Construction in progress represents buildings under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(e) Biological assets

Biological assets are living plants which are subject to agricultural activities of the transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets. Biological assets are measured at their fair value less cost to sell. Agricultural produce harvested from the Group's biological assets are measured at its fair value less cost to sell at the point of harvest.

(f) Intangible assets

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Forest concession rights acquired by the Group are stated at cost less accumulated amortisation and any accumulated impairment losses. These concession rights give the Group rights to logging trees in the allocated concession forests in designated areas in the Papua Province of Indonesia. Amortisation is charged on a unit of production basis over the estimated useful lives of forest concession rights.

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating leases charges
Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged as expenses in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(h) Investments and other financial assets

Initial recognition and measurement
Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follow:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets

i) Impairment of investment in equity securities and other receivables

Investment in equity securities (other than investments in subsidiaries: see note 3(i)ii), and other current and non-current receivables that are carried at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unlisted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed.

Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the profit or loss.

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– intangible assets; and

– interest in subsidiaries

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs to sell and its 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 assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(j) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(k) Inventories

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 3(i)).

(m) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and convertible bonds.

Convertible bonds

Convertible bonds issued by the Group contain a liability and a conversion option. The liability and conversion option are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. At the date of issue, the fair value of the liability component is determined using the prevailing market interest rates of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (equity component of convertible bonds).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in equity component of convertible bonds until the embedded conversion option is exercised (in which case the balance stated in equity component of convertible bonds will be transferred to share premium).

Where the conversion option remains unexercised at the expiry date, the balance stated in equity component of convertible bonds will be released to the retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

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

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial liabilities (Continued)

Derecognition of financial liabilities

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

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

(n) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to bid price for long positions and ask price for short positions, without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

(o) Cash and cash equivalents

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

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future or, in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

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

(q) Provisions and contingent liabilities

i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 3(q)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 3(q)(ii).

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Provisions and contingent liabilities (Continued)

ii) Provisions and contingent liabilities

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

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

(r) Related parties

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

- i) has control or joint control over the Group;
- ii) has significant influence over the Group; or
- iii) is a member of the key management personnel of the Group or the Group's parent.

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

- i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii) Both entities are joint ventures of the same third party.
- iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- vi) The entity is controlled or jointly controlled by a person identified in a).
- vii) A person identified in a) i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition (Continued)

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

i) **Sale of goods**
Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and returns.

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

(t) Employee benefits

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

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

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

iii) **Termination benefits**
Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Notes to the Financial Statements

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Foreign currencies translation

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in the other comprehensive income and accumulated in the exchange fluctuation reserve.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries established in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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

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

(v) Segment reporting

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

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

Notes to the Financial Statements

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4. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group initially applied the following HKFRSs:

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendment to HKAS 12	Recovery of Underlying Assets

The initial application of these HKFRSs does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented.

5. ACCOUNTING ESTIMATES AND JUDGEMENT

(a) Key sources of Estimation Uncertainty

In the process of applying the Group's accounting policies which are described in note 3, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

(i) Property, plant and equipment and depreciation

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(ii) Impairment of assets

The Group's management has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(iii) Income tax

The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be charged. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

Notes to the Financial Statements

31 December 2012

6. SEGMENT REPORTING

For management purposes, the Group is organised into business units based on its products and services and has three reportable operating segments as follows:

(a) the trading business segment engages in the trading of goods, components and accessories; and

(b) the forestry business segment engages in logging of trees, the operations of wood-processing factories and the sale of sawn timber, other timber and wood products; and

(c) the plantation business segment engaged in plantation of oil palm trees and sale of palm oil.

Executive directors, who are the chief operating decision makers, monitor the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, finance costs, equity-settled share option expenses, as well as head office and corporate expenses are excluded from such measurement.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arised from the depreciation or amortisation of assets attributable to those segments.

Segment assets include non-current assets and current assets with the exception of certain assets unallocated to an individual reportable segment.

Segment liabilities include non-current liabilities and current liabilities with the exception of convertible bonds, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

For the year ended 31 December 2012

HK$'000	Trading business	Forestry business	Plantation business	Total	Reconciliations	Group Total
Segment revenue:						
Revenue from external customers	7,909	–	–	7,909	–	7,909
Operating profit/(loss)	167	(600,815)	(550)	(601,198)	–	(601,198)
Interest income	–	25	–	25	120	145
Finance costs	–	(26,872)	–	(26,872)	–	(26,872)
Biological assets written off	–	–	(9,579)	(9,579)	–	(9,579)
Reconciled items:						
Unallocated expenses	–	–	–	–	(5,595)	(5,595)
Equity-settled share option expenses	–	–	–	–	(974)	(974)
Profit/(loss) before tax	167	(627,662)	(10,129)	(637,624)	(6,449)	(644,073)
Depreciation (note 8(b))	–	(7,078)	(123)	(7,201)	–	(7,201)
Impairment loss on forest concessions	–	(560,000)	–	(560,000)	–	(560,000)
Impairment loss on property, plant and equipment	–	(16,000)	–	(16,000)	–	(16,000)

Notes to the Financial Statements

31 December 2012

6. SEGMENT REPORTING (Continued)

For the year ended 31 December 2011

HK$'000	Trading business	Forestry business	Plantation business	Total	Reconciliations	Group Total
Segment revenue:						
Revenue from external customers	4,072	4,819	–	8,891	–	8,891
Operating profit/(loss)	85	(25,769)	(993)	(26,677)	–	(26,677)
Interest income	–	4	–	4	35	39
Finance costs	–	(35,431)	–	(35,431)	–	(35,431)
Fair value gain on biological assets less cost to sell	–	–	2,944	2,944	–	2,944
Reconciled items:						
Unallocated expenses	–	–	–	–	(7,521)	(7,521)
Equity-settled share option expenses	–	–	–	–	(2,880)	(2,880)
Profit/(loss) before tax	85	(61,196)	1,951	(59,160)	(10,366)	(69,526)
Additions to non-current assets	–	4,513	–	4,513	5,000	9,513
Fair value gain on biological assets less cost to sell	–	–	2,944	2,944	–	2,944
Depreciation (note 8(b))	–	(6,156)	(207)	(6,363)	–	(6,363)
Amortisation of forest concessions	–	(3,724)	–	(3,724)	–	(3,724)

As at 31 December 2012

HK$'000	**Trading business**	**Forestry business**	**Plantation business**	**Total**	**Reconciliations**	**Group Total**
Segment assets	**2,365**	**280,960**	**–**	**283,325**	**–**	**283,325**
Reconciled items:						
Cash and cash equivalents	**–**	**–**	**–**	**–**	**48**	**48**
Unallocated assets	**–**	**–**	**–**	**–**	**31,027**	**31,027**
Total assets	**2,365**	**280,960**	**–**	**283,325**	**31,075**	**314,400**
Segment liabilities	**–**	**1,047**	**–**	**1,047**	**–**	**1,047**
Convertible bonds	**–**	**189,705**	**–**	**189,705**	**–**	**189,705**
Reconciled items:						
Unallocated liabilities	**–**	**–**	**–**	**–**	**3,510**	**3,510**
Total liabilities	**–**	**190,752**	**–**	**190,752**	**3,510**	**194,262**

Notes to the Financial Statements

31 December 2012

6. SEGMENT REPORTING (Continued)

As at 31 December 2011

HK$'000	Trading business	Forestry business	Plantation business	Total	Reconciliations	Group Total
Segment assets	2,878	880,016	9,579	892,473	–	892,473
Reconciled items:						
Cash and cash equivalents	–	–	–	–	24,047	24,047
Unallocated assets	–	–	–	–	5,081	5,081
Total assets	2,878	880,016	9,579	892,473	29,128	921,601
Segment liabilities	–	1,284	–	1,284	–	1,284
Convertible bonds	–	304,111	–	304,111	–	304,111
Reconciled items:						
Unallocated liabilities	–	–	–	–	240	240
Total liabilities	–	305,395	–	305,395	240	305,635

Geographical information

(a) Revenue from external customers

	Note	Year ended 31 December 2012 HK$'000	 2011 HK$'000
Hong Kong (place of domicile)	7	**7,909**	8,891

The revenue information is based on the location of the customers.

(b) Non-current assets

	As at 31 December 2012 HK$'000	 2011 HK$'000
Indonesia	**282,731**	878,136
Hong Kong (place of domicile)	**186**	678
	282,917	878,814

The non-current asset information above is based on the location of assets.

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6. SEGMENT REPORTING (Continued)

Information about major customers

Revenues from customers contributing 10% or more of the total sales of the Group are as follows:

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Customer A – revenue from forestry and trading business – Hong Kong	**7,909**	6,966
Customer B – revenue from forestry business – Hong Kong	**–**	1,925
	7,909	8,891

7. REVENUE, OTHER INCOME AND OTHER NET GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue and other income is as follows:

	2012	2011
	HK$'000	HK$'000
Revenue		
Sales of goods attributable to the trading business	**7,909**	4,072
Sales of logs attributable to the forestry business	**–**	4,819
	7,909	8,891
Other income		
Interest income on bank deposit	**145**	39
Others	**295**	4
	440	43

Notes to the Financial Statements

31 December 2012

8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2012 HK$'000	2011 HK$'000
(a) Staff costs (including directors' emoluments (note 11))*:		
Salaries, wages and other benefits	**9,886**	15,318
Termination expenses	**1,104**	–
Equity-settled share-option expenses	**974**	2,880
Pension scheme contributions	**97**	140
	12,061	18,338
(b) Other items:		
Auditors' remuneration		
– Audit services	**741**	761
Depreciation**	**7,201**	6,363
Cost of inventories sold***	**–**	8,096
Minimum lease payments under operating leases:		
Land and buildings	**1,071**	1,143
Loss on disposal of property, plant and equipment	**1,089**	5
Amortisation of forest concessions	**–**	3,724
Impairment of forest concessions	**560,000**	–
Impairment of property, plant and equipment	**16,000**	–
Impairment of prepayments, deposits and other receivables	**1,701**	–
Biological assets written off	**9,579**	–
Inventories written off	**1,914**	–
Fair value gain on biological assets	**–**	(2,944)
Foreign exchange loss, net	**346**	10

* In 2011, the amount excludes staff costs capitalised in inventories as at year end of approximately HK$389,000 (2012: nil).

** In 2011, the amount excludes depreciation capitalised in inventories as at year end of approximately HK$822,000 (2012: nil).

*** In 2011, cost of inventories sold includes depreciation of approximately HK$1,638,000 (2012: nil), and staff costs of approximately HK$757,000 (2012: nil), the amount of which are also included in the respective total amounts disclosed separately above.

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9. DISPOSAL OF SUBSIDIARIES

(a) For the year ended 31 December 2012

On 6 November 2012, a subsidiary of the Company, Merdeka Kayu (Singapore) Pte. Ltd., was struck off. The subsidiary was dormant before the strike off.

Net liabilities written off

	Year ended 31 December 2012 HK$'000
Net liabilities disposed	(325)
Less: Waive of current accounts	325
Loss on disposal of subsidiary	–
	HK$
Analysis of the net inflow of cash and cash equivalents in respect of the disposal	
Cash received	–
Cash and bank balances disposed of	–
Net cash outflow of cash and cash equivalents in respect of the disposal of subsidiary	–

(b) For the year ended 31 December 2011

No disposal of subsidiaries was made during the year.

10. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on convertible bonds (note 27)	26,872	35,431

The charge represents the imputed interest on the liability component of the convertible bonds for the year.

Notes to the Financial Statements

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11. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2012 HK$'000	2011 HK$'000
Executive directors:		
Fees	–	–
Other emoluments:		
Salaries, housing allowances, other allowances and benefits in kind	3,455	3,958
Pension scheme contributions	19	24
Equity-settled share option expenses	700	1,364
	4,174	5,346
Non-executive directors:		
Fees	43	–
Other emoluments:		
Salaries, housing allowances, other allowances and benefits in kind	266	1,488
Pension scheme contributions	–	–
Equity-settled share option expenses	–	1,330
	309	2,818
Independent non-executive directors:		
Fees	211	180
Other emoluments:		
Equity-settled share option expenses	123	–
	334	180
	4,817	8,344

During the year ended 31 December 2012 and 2011, certain directors were granted share options in respect of their services to the Group under the Company's share option scheme, further details of which are set out in note 29 to the financial statements. The share options have been vested upon the date of grant. The fair value of such share options which has been recognised in profit or loss, was determined as at the date of grant and the amount included in the financial statements for the period is included in the above disclosure for directors' emoluments.

Notes to the Financial Statements

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11. DIRECTORS' EMOLUMENTS (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Fees HK$'000	Equity-settled share option expenses HK$'000	Total emoluments HK$'000
2012:			
Lam Kin Kau, Mark	**70**	**41**	**111**
Fung Hoi Wing, Henry (note 1)	**49**	**41**	**90**
Lau Ho Wai, Lucas	**70**	**41**	**111**
Yeung Mo Sheung, Ann (note 2)	**22**	**–**	**22**
	211	**123**	**334**
2011:			
Lam Kin Kau, Mark	60	–	60
Fung Hoi Wing, Henry	60	–	60
Lau Ho Wai, Lucas	60	–	60
	180	–	180

Note 1: Mr. Fung Hoi Wing, Henry resigned as a director of the Company on 26 October 2012.

Note 2: Ms. Yeung Mo Sheung, Ann was appointed as a director of the Company on 26 October 2012.

(b) Non-executive directors

	Fees HK$'000	Salaries, housing allowances, other allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expenses HK$'000	Total emoluments HK$'000
2012:					
Yeh Shuen Ji (note 1)	**–**	**133**	**–**	**–**	**133**
Bai Baohua (note 1)	**–**	**133**	**–**	**–**	**133**
Wong Chi Man (note 2)	**43**	**–**	**–**	**–**	**43**
	43	**266**	**–**	**–**	**309**
2011:					
Yeh Shuen Ji (note 1)	–	744	–	665	1,409
Bai Baohua (note 1)	–	744	–	665	1,409
	–	1,488	–	1,330	2,818

Note 1: Mr. Yeh Shuen Ji and Mr. Bai Baohua were appointed and resigned as directors of the Company on 27 January 2011 and 15 May 2012 respectively.

Note 2: Mr. Wong Chi Man was appointed as a director of the Company on 24 August 2012.

Notes to the Financial Statements

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11. DIRECTORS' EMOLUMENTS (Continued)

(c) Executive directors

	Salaries, housing allowances, other allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expenses HK$'000	Total emoluments HK$'000
2012:				
Cheung Wai Yin, Wilson (note 1)	**426**	**–**	**–**	**426**
Lau Chi Yan, Pierre (note 1)	**85**	**–**	**–**	**85**
Gong Yao Qian (note 2)	**94**	**–**	**–**	**94**
Ma Hang Kon, Louis	**2,200**	**14**	**700**	**2,914**
Lai Wing Hung (note 3)	**500**	**5**	**–**	**505**
Wong Shui Lung (note 4)	**150**	**–**	**–**	**150**
	3,455	**19**	**700**	**4,174**
2011:				
Ma Hang Kon, Louis	2,200	12	699	2,911
Lai Wing Hung	1,200	12	–	1,212
Wong Shui Lung (note 4)	558	–	665	1,223
	3,958	24	1,364	5,346

Note 1: Mr. Cheung Wai Yin, Wilson and Mr. Lau Chi Yan, Pierre were appointed as directors of the Company on 24 August 2012.

Note 2: Professor Gong Yao Qian was appointed and resigned as a director of the Company on 10 July 2012 and 27 November 2012 respectively.

Note 3: Mr. Lai Wing Hung resigned as a director of the Company on 22 June 2012.

Note 4: Mr. Wong Shui Lung was appointed and resigned as a director of the Company on 27 January 2011 and 15 May 2012 respectively.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2012 and 2011.

During the year ended 31 December 2012 and 2011, no emolument was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

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12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included 3 (2011: 5) directors, details of whose emoluments are set out in note 11 above. Details of the emoluments of the remaining 2 (2011: 0) non-director, highest paid employee for the year ended 31 December 2012 are as follows:

	2012 HK$'000	2011 HK$'000
Salaries, allowances and benefits in kind	1,124	–
Pension scheme contributions	28	–
Equity-settled share option expenses	93	–
	1,245	–

The remuneration of each of the highest paid employee who is not a director of the Company for the year ended 31 December 2012 fell within the range from nil to HK$1,000,000.

13. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the year (2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Overseas profits tax has not been provided as the overseas subsidiaries had no taxable income for the year.

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Indonesia		Hong Kong		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
2012:						
Loss before tax	(592,386)		(51,687)		(644,073)	
Tax at the applicable tax rate	(148,097)	25.0	(8,528)	16.5	(156,625)	24.3
Income not subject to tax	(6)	–	(64)	0.1	(70)	0.1
Expenses not deductible for tax purpose	144,545	(24.4)	6,521	(12.6)	151,066	(23.5)
Tax losses not recognised	3,558	(0.6)	2,071	(4.0)	5,629	(0.9)
Tax charge at the Group's effective rate	–	–	–	–	–	–

Notes to the Financial Statements

31 December 2012

13. INCOME TAX (Continued)

	Indonesia		Hong Kong		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
2011:						
Loss before tax	(12,477)		(57,049)		(69,526)	
Tax at the applicable tax rate	(3,119)	25.0	(9,413)	16.5	(12,532)	18.0
Income not subject to tax	(1)	–	(559)	1.0	(560)	0.8
Expenses not deductible for tax purpose	25	(0.2)	7,734	(13.6)	7,759	(11.1)
Tax losses not recognised	3,095	(24.8)	2,238	(3.9)	5,333	(7.7)
Tax charge at the Group's effective rate	–	–	–	–	–	–

14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2012 includes a loss of about HK$629,539,000 (2011: HK$40,147,000) which has been dealt with in the financial statements of the Company (note 30(b)).

15. DIVIDEND

No dividend has been paid or declared by the Company during the year (2011: Nil).

16. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of basic and diluted loss per share is based on:

	2012	2011
	HK$'000	HK$'000
Loss		
Loss attributable to owners of the Company used in the basic loss per share calculation	**(613,037)**	(67,157)
	Number of shares (thousands)	
Shares		
Weighted average number of ordinary shares in issue during the year	**7,670,944**	5,725,312

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2012 and 2011 in respect of a dilution as the impact of the convertible bonds and share options outstanding had an anti-dilutive effect on the basic loss per share.

Notes to the Financial Statements

31 December 2012

17. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Road and bridges HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Computer and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
2012							
At 1 January 2012:							
Cost	5,000	1,257	745	45,151	1,184	1,355	54,692
Accumulated depreciation	–	(362)	(440)	(12,858)	(713)	(895)	(15,268)
Carrying amount	5,000	895	305	32,293	471	460	39,424
At 1 January 2012, net of accumulated depreciation	5,000	895	305	32,293	471	460	39,424
Additions	–	–	–	–	–	–	–
Disposal and write-off	–	–	(130)	(2,799)	(128)	(60)	(3,117)
Depreciation provided during the year	–	(115)	(101)	(6,547)	(216)	(222)	(7,201)
Impairment provided during the year (Note 18)	–	(500)	–	(15,500)	–	–	(16,000)
At 31 December 2012, net of accumulated depreciation and impairment	5,000	280	74	7,447	127	178	13,106
At 31 December 2012:							
Cost	5,000	1,257	151	39,933	521	455	47,317
Accumulated depreciation	–	(477)	(77)	(16,986)	(394)	(277)	(18,211)
Accumulated impairment	–	(500)	–	(15,500)	–	–	(16,000)
Carrying amount	5,000	280	74	7,447	127	178	13,106

Notes to the Financial Statements

31 December 2012

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Construction in progress HK$'000	Road and bridges HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Computer and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
2011							
At 1 January 2011:							
Cost	–	1,044	390	41,639	1,040	1,080	45,193
Accumulated depreciation	–	(90)	(341)	(6,646)	(441)	(574)	(8,092)
Carrying amount	–	954	49	34,993	599	506	37,101
At 1 January 2011, net of accumulated depreciation	–	954	49	34,993	599	506	37,101
Additions	5,000	213	355	3,512	158	275	9,513
Disposal and write-off	–	–	–	–	(5)	–	(5)
Depreciation provided during the year	–	(272)	(99)	(6,212)	(281)	(321)	(7,185)
At 31 December 2011, net of accumulated depreciation	5,000	895	305	32,293	471	460	39,424
At 31 December 2011:							
Cost	5,000	1,257	745	45,151	1,184	1,355	54,692
Accumulated depreciation	–	(362)	(440)	(12,858)	(713)	(895)	(15,268)
Carrying amount	5,000	895	305	32,293	471	460	39,424

Notes to the Financial Statements

31 December 2012

18. FOREST CONCESSIONS

	2012 HK$'000	2011 HK$'000
Cost:		
At 1 January and 31 December	**833,801**	833,801
Accumulated amortisation:		
At 1 January	**(3,990)**	(266)
Charge for the year	**–**	(3,724)
At 31 December	**(3,990)**	(3,990)
Accumulated impairment:		
At 1 January	**–**	–
Impairment for the year	**(560,000)**	–
At 31 December	**(560,000)**	–
Carrying amount:		
At 31 December	**269,811**	829,811

Amortisation is charged on a unit of production basis over the estimated useful lives of forest concessions.

The Group acquired certain forest concessions in the Papua Province of Indonesia through acquisitions of subsidiaries. The forest concession rights cover the entire forest area of 313,500 hectares. This is a long term licence which allows logging, land clearing and plantation of oil palm trees.

In March 2013, the Company obtained an updated legal opinion and legal confirmation letter from Adi Prasetyo & Partners Law Firm, which confirmed that the location permit has been legally granted by the Head of Mimika Regency to the Company for allocation of forest areas in aggregate of 313,500 hectares, located in the Mimika Areas. The plantation business licence has been legally granted to the Company by the Governor of Papua, Indonesia. As such, the Company is legally permitted to carry out land clearing activities and to develop oil palm plantation business, including but not limited to carrying out felling, logging and harvesting of trees, and plantation activities within the Mimika Concessions Areas.

The Company commenced the process to apply to the National Land Agency for land use right to establish the right to use of land area for oil palm plantation activities according to plantation business licence or Governor Decree 35/2009. The legal opinion mentioned that as the Company has obtained all the licences and permits to carry out logging, harvesting and plantation activities, the application for land use right registration is merely a procedural matter. The land use right registration is relevant only to the plantation activities and is not required for the logging and forest clearing operations. It is expected that there will not be any legal impediment.

In 2012, as the result of the unexpected delay of production, the Group carried out a review of the recoverable amount of those concessions and related equipment. These assets are used in the Group's forestry business reportable segments. The recoverable amount of the relevant assets has been determined on the basis of their value in use. In addition, the Group engaged Roma Appraisals Limited, an independent qualified professional valuer not connected with the Group, to value the fair value of the forest concessions. The fair value of the forest concessions as at 31 December 2012 was approximately HK$278,000,000 (2011: HK$938,000,000) based on the income-based approach. The discount rate adopted was 20.47% as at 31 December 2012 (2011: 19.44%).

The review led to recognition of an impairment loss on forest concessions and property, plant and equipment of approximately HK$560,000,000 and HK$16,000,000 respectively, which has been recognised in the profit or loss (2011: nil).

Notes to the Financial Statements

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19. BIOLOGICAL ASSETS

	2012 HK$'000	2011 HK$'000
At the beginning of the year	**9,579**	6,635
Additions	**–**	–
Fair value gain on biological assets less cost to sell	**–**	2,944
Biological assets written off	**(9,579)**	–
At end of the year	**–**	9,579

The Group is engaged in the plantation of oil palm tree for supply of palm oil to customers. At 31 December 2011, the Group held approximately 150 thousands seedlings of palm oil trees planted in Timika, Papua, Indonesia to produce palm oil in the future (immature assets). The fair value of the Group's biological assets was assessed using market-based approach by obtaining information regarding the market prices of similar oil palms from external sources and taking into account the species, ages and countries of origin of the oil palms. The comparable market price and the reported quantity of the oil palms were then adjusted for the growth status, ages and actual quantity of the oil palms. The adjusted comparable market price and quantity of the oil palms were applied to estimate the fair value of the oil palms at the reporting date.

Management performs regular reviews on the growth status of biological assets. Considering the postponement of the Group's forestry project, the management determined to write off the biological assets of approximately HK$9,579,000 in 2012.

20. INTERESTS IN SUBSIDIARIES

An analysis of interests in subsidiaries is as follows:

	Company	
	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**938,602**	938,602
Due from subsidiaries	**100,888**	77,376
	1,039,490	1,015,978
Less: Impairment losses	**(658,405)**	(58,405)
	381,085	957,573

	Company	
	2012 HK$'000	2011 HK$'000
Due to subsidiaries	**26,792**	28,609

Notes to the Financial Statements

31 December 2012

20. INTERESTS IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries are unsecured, interest-free and are not expected to be recovered within one year. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries. The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/(to) subsidiaries approximate to their fair values.

Several subsidiaries had recurring operating losses with low liquidity ratio. After reviewing the financial performance and financial position of these subsidiaries, the directors consider that appropriate impairment loss on the amount due from these subsidiaries should be written down to their recoverable amount. As a result of the review, impairment loss of approximately HK$600,000,000 has been charged to the profit or loss of the Company for the year ended 31 December 2012 (2011: HK$nil). The recoverable amount of the asset is its fair value less costs to sell.

Particulars of the principal subsidiaries are as follows:

Name	Place of establishment/ incorporation and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Directly	Indirectly	Principal activities
Merdeka Resources International Limited	Hong Kong	HK$100,000 Ordinary	–	100	Trading business
Source Easy Limited	Hong Kong	HK$10,000 Ordinary	–	100	Inactive
Merdeka Timber Group Limited	British Virgin Islands/Hong Kong	US$12,000	100	–	Investment holding
PT. Merdeka Tapare Timber	Indonesia	US$500,000	–	65	Forestry business
PT. Merdeka Plantation Indonesia	Indonesia	US$5,000,000	–	95	Plantation and forestry business

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.

21. TRADE RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	**2,365**	2,878

The Group's trading terms with its customers are mainly on credit. The credit period is generally two months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has credit control procedures established to monitor credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

Notes to the Financial Statements

31 December 2012

21. TRADE RECEIVABLES (Continued)

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

	2012		2011	
	Balance HK$'000	Percentage	Balance HK$'000	Percentage
Current to 30 days	443	19	908	32
31 to 60 days	1,026	43	1,668	58
61 to 120 days	896	38	302	10
	2,365	100	2,878	100

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2012 HK$'000	2011 HK$'000
Neither past due nor impaired	2,365	2,878

Trade receivables that were neither past due nor impaired relate to a customer for whom there was no recent history of default. The Group does not hold any collateral over these balances.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Prepayments	6,823	923	–	53
Deposits and other receivables*	21,376	1,391	6,027	28
	28,199	2,314	6,027	81
Less: Impairment losses	(1,701)	–	–	–
	26,498	2,314	6,027	81

Other receivables that were neither past due nor impaired relate to receivables which had no recent history of default.

* Included in deposits and other receivables, a payment of HK$20,000,000 represents a deposit for the proposed very substantial acquisition of 70% interests in Ever Hero Group. The principal activity of Ever Hero Group is provision of information technology solution, online and offline game and content development and enterprise system maintenance services. This proposed very substantial acquisition is subject to the satisfaction of several conditions, including the approval of the shareholders of the Company. As at the date of this report, the acquisition is still in progress.

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23. INVENTORIES

	2012 HK$'000	2011 HK$'000
Logs	–	1,914

The analysis of the amount of inventories recognised as an expenses and included in profit or loss is as follows:

	2012	2011
Carrying amount of inventories sold	–	8,096
Inventories written off	1,914	–
	1,914	8,096

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Cash and cash equivalents	2,620	35,681	48	24,047

At 31 December 2012, bank balances carry interest at market rate of 0.01% (2011: 0.01% to 1.50%) per annum. The bank balances are deposited with creditworthy banks of high credit ratings.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Other payables	3,814	482	3,045	–
Accruals	743	1,042	165	240
	4,557	1,524	3,210	240

Other payables are non-interest-bearing and have an average term of three months.

26. DEFERRED TAX

As at 31 December 2012, the Group has unused tax losses of approximately HK$101,941,000 (2011: HK$92,110,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

Notes to the Financial Statements

31 December 2012

27. CONVERTIBLE BONDS

On 12 August 2008, the Company issued HK dollar denominated coupon bonds to MCL. These convertible bonds ("Convertible Bonds") were part of the consideration for the acquisition of forest concessions in Papua, Indonesia.

Subject to the restrictions specified below, the Convertible Bonds are convertible at the option of the bondholders into ordinary shares in the Company at the initial conversion price of HK$0.1 per share (subject to adjustment as provided in the terms and conditions of the Convertible Bonds) at any time from the date of issue and ending on the fifth business day before the third anniversary of the date of issue:

- The bondholders do not have the right to convert any principal amount of the Convertible Bonds into new shares of the Company thereof, if upon such conversion, MCL and the parties acting in concert with it will be interested in 30% (or such amount as may from time to time be specified in the Codes on Takeovers and Mergers and Share Repurchases as being the level for triggering a mandatory general offer) or more of the enlarged issued share capital of the Company at the date of relevant conversion;

- The conversion of the Convertible Bonds shall not cause the Company to be in breach of the minimum public float requirement as stipulated under Rule 11.23 of the GEM Listing Rules; and

- The bondholders do not have the right to convert any Convertible Bonds with the principal amount falling between the range of HK$350,000,000 to HK$776,880,000 at any time during the period from the issue date up to and inclusive of the date that falls on the first anniversary of the issue date.

The Convertible Bonds are unsecured, interest-free and have a maturity date of 12 August 2011. Unless converted into the shares of the Company by the Company, the outstanding balance of the Convertible Bonds would be redeemed in full on maturity.

On 30 May 2011, the Company entered into the supplemental deed with MCL to extend the maturity date of the Convertible Bonds for 3 years and the conversion period will accordingly be extended from 12 August 2011 (date of extension) to 12 August 2014 (new maturity date). Upon becoming effective of the supplemental deed, the Company may at any time during the period commencing from the date of extension to the new maturity date to redeem the whole or part of the outstanding Convertible Bonds on a pro rata basis. Apart from the extension of the maturity date, the conversion period and the early redemption right, all terms of the Convertible Bonds remain unchanged.

Notes to the Financial Statements

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27. CONVERTIBLE BONDS (Continued)

During the year ended 31 December 2012, the Convertible Bonds with a nominal value of HK$180,000,000 (2011: HK$100,000,000) were converted into 1,800,000,000 (2011: 1,000,000,000) ordinary shares of the Company of HK$0.01 each (note 28). The outstanding principal amount of the Convertible Bonds as at 31 December 2012 was HK$224,880,000 (2011: HK$404,880,000).

The Convertible Bonds contain two components, the liability and equity components. The equity component is presented in equity as an "Equity component of convertible bonds".

Upon effective of the supplemental deed in 2011, the Convertible Bonds was valued by the directors of the Company with reference to a valuation report issued by Grant Sherman Appraisal Limited, an independent qualified valuer not connected to the Group. Gain on extinguishment of convertible bonds in respect of the equity component of approximately HK$28,487,000 was recognised in the statement of changes in equity for the year ended 31 December 2011. Gain on extinguishment of convertible bonds in respect of the liability component of approximately HK$132,739,000 was recognised in the statement of changes in equity as owner's transaction for the year ended 31 December 2011.

The effective interest rate of the liability component is approximately 11.66% upon extension of maturity date in July 2011 (prior to extension of maturity date: 7.25%).

The movement of the liability component of the convertible bonds for the year was set out below:

	Group and Company	
	2012	2011
	HK$'000	HK$'000
At beginning of the year	**304,111**	485,652
Gain on extinguishment of convertible bonds in respect of liability component	**–**	(132,739)
Interest charged	**26,872**	35,431
Conversion of convertible bonds	**(141,278)**	(84,233)
At end of the year	**189,705**	304,111

Notes to the Financial Statements

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28. SHARE CAPITAL

Shares

	2012 HK$'000	2011 HK$'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
8,578,649,000 (2011: 6,378,649,000) ordinary shares of HK$0.01 each	**85,786**	63,786

A summary of the movements in the Company's issued ordinary share capital during the year is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2011	5,328,149,000	53,281	463,568	516,849
Issue of new shares upon exercise of share options (note 29)	50,500,000	505	2,391	2,896
Issue of new shares upon conversion of convertible bonds (note 27)	1,000,000,000	10,000	89,629	99,629
At 31 December 2011 and 1 January 2012	6,378,649,000	63,786	555,588	619,374
Issue of new shares under share-based payments	400,000,000	4,000	2,000	6,000
Issue of new shares upon conversion of convertible bonds (note 27)	1,800,000,000	18,000	146,276	164,276
At 31 December 2012	8,578,649,000	85,786	703,864	789,650

Share-based payments

On 19 July 2012, Merdeka Resources International Limited, an indirect wholly owned subsidiary of the Company, entered into an agreement with a supplier for the purchase of 800,000 metric tons tailings at a consideration of HK$6,000,000, which should be satisfied by the allotment and issuance of 400,000,000 ordinary shares of the Company under the general mandate granted at the annual general meeting of the Company on 3 May 2012. The issue price of the shares, HK$0.015 per share, was determined with reference to the then prevailing market price of the shares. The shares were allotted and issued in August 2012.

Convertible bonds and share options

Details of the Company's convertible bonds and share option scheme are included in note 27 and 29 to the financial statements respectively.

Notes to the Financial Statements

31 December 2012

29. SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group. The old share option scheme was approved by the then sole shareholder of the Company on 20 February 2002 by way of a written resolution and it became effective on 7 March 2002 and shall be valid and effective for a period of 10 years from that date, subject to early termination by the Company in a general meeting or by the Board. The old share option scheme expired on 6 March 2012 and all the outstanding share options thereunder lapsed because of the expiry of the option period. The new share option scheme of the Company was effective on 3 May 2012, when the annual general meeting was held. Unless otherwise cancelled or amended, the new share option scheme will also remain in force for a period of 10 years from the date of its adoption. The Board may, at their discretion, offer options to any full-time or part-time employee or director of any member of the Group, and any consultant of or adviser to any member of the Group (the “Participants”) to subscribe for shares of the Company (the “Shares”).

The maximum number of Shares which may be issued upon the exercise of all outstanding share options granted and yet to be exercised under the share option scheme must not exceed 30% of the Shares in issue from time to time.

The maximum number of Shares available for issue under share options which may be granted under the share option scheme adopted by the Company must not in aggregate exceed 10% of the Shares in issue. The maximum number of Shares issued and to be issued upon exercise of the share options granted and to be granted to each Participant (including both exercised and outstanding share options) in any 12-month period up to the date of grant must not exceed 1% of the Shares in issue at the date of grant. Any further grant of share options in excess of the above limit must be subject to shareholders’ approval with such Participant and his associates (as defined in the GEM Listing Rules) abstaining from voting.

If share options are granted to a connected person (as defined in the GEM Listing Rules) or his associates, the granting of such share options will be subject to approval of all INEDs (excluding INED who is a grantee); where options are proposed to be granted to a connected person who is also a substantial shareholder or an INED of the Company or any of their respective associates which will result in the total number of Shares issued and to be issued upon exercise of the share options granted or to be granted (including share options exercised, cancelled and outstanding) to such person under the share option scheme in the past 12-month period up to and including the date of such grant: (1) exceeding 0.1% of the total issued Shares for the time being; and (2) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5,000,000, the granting of such options will be subject to approval of the independent shareholders of the Company. All connected persons will abstain from voting (except any connected person that may vote against the resolution).

Upon acceptance of the share option offers, the grantee shall pay HK$1 to the Company as consideration for each offer. The share option will be offered for acceptance for a period of 28 days (or such shorter period as the Board may from time to time determine) from the date on which the share option is granted. The exercise period of the share options granted is determinable by the directors and commences after a certain vesting period, if any, as determined by the directors and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the share option scheme, if earlier.

Notes to the Financial Statements

31 December 2012

29. SHARE OPTION SCHEME (Continued)

The subscription price of the share in respect of any particular share option granted under the share option scheme shall be such price as the Board in its absolute discretion shall determine, save that such price shall be the highest of: (i) the closing price of the Shares as stated in the Stock Exchange daily quotation sheet on the date of the grant of the share option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets on the five business days immediately preceding the date of the grant of the share option; and (iii) the nominal value of the Share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the share option scheme during the year:

	2012		2011	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At beginning of the year	**0.145**	**307,000**	0.135	258,500
Granted during the year	**0.017**	**83,500**	0.117	107,000
Forfeited/expired during the year	**0.145**	**(307,000)**	0.116	(8,000)
Exercised during the year	**–**	**–**	0.038	(50,500)
At end of the year	**0.017**	**83,500**	0.145	307,000

The exercise prices and exercise periods of the share options outstanding and exercisable as at the end of the reporting period are as follows:

2012 Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
83,500	0.017	30 May 2012 to 29 May 2022

Notes to the Financial Statements

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29. SHARE OPTION SCHEME (Continued)

2011 Number of options '000	Exercise price* HK$ per share	Exercise period
9,500	0.160	7 July 2009 to 6 March 2012
190,500	0.160	11 August 2009 to 6 March 2012
43,000	0.078	24 October 2010 to 6 March 2012
64,000	0.143	24 October 2010 to 6 March 2012
307,000		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other changes in the Company's share capital.

The share options are vested at the date of grant. The fair value of the share options granted during the year was approximately HK$974,000 (2011: HK$2,880,000) of which the Group recognised a share option expense of approximately HK$974,000 (2011: HK$2,880,000) during the year.

The fair value of equity-settled share options granted during the year ended 31 December 2012 and 2011 was estimated as at the date of grant, using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2012	2011
Weighted average share price	**0.017**	0.117
Dividend yield (%)	**–**	–
Expected volatility (%)	**89.4**	58 – 69
Historical volatility (%)	**89.4**	58 – 69
Risk-free interest rate (%)	**0.52**	0.2 – 0.3
Expected life of options (year)	**5**	0.7 – 0.9
Closing share price at grant date (HK$)	**0.017**	0.078 – 0.143

The expected life of the options is based on management expectation and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 83,500,000 (2011: 307,000,000) share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 83,500,000 (2011: 307,000,000) additional ordinary shares in the Company and additional share capital of HK$835,000 (2011: HK$3,070,000) and share premium of approximately HK$584,500 (2011: HK$44,506,000) (before issue expenses).

Notes to the Financial Statements

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30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 41 of the consolidated financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium accounts of the subsidiaries acquired in prior years, over the nominal value of the Company's shares issued in exchange therefore.

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Equity component of convertible bonds HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	463,568	18,203	95,614	12,915	(176,465)	413,835
Change in equity for 2011: Total comprehensive loss for the year	–	–	–	–	(40,147)	(40,147)
Equity-settled share option arrangements	–	–	–	2,880	–	2,880
Issue of new shares upon exercise of share options	2,391	–	–	(977)	–	1,414
Forfeiture of share options	–	–	–	(327)	327	–
Gain on extinguishment of convertible bonds	–	–	(28,487)	–	161,226	132,739
Issue of new shares upon conversion of convertible bonds	89,629	–	(15,395)	–	–	74,234
At 31 December 2011 and 1 January 2012	555,588	18,203	51,732	14,491	(55,059)	584,955
Change in equity for 2012: Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(629,539)**	**(629,539)**
Equity-settled share option arrangements	**–**	**–**	**–**	**974**	**–**	**974**
Issue of new shares under share-based payments	**2,000**	**–**	**–**	**–**	**–**	**2,000**
Forfeiture of share options	**–**	**–**	**–**	**(14,491)**	**14,491**	**–**
Issue of new shares upon conversion of convertible bonds	**146,276**	**–**	**(22,999)**	**–**	**–**	**123,277**
At 31 December 2012	**703,864**	**18,203**	**28,733**	**974**	**(670,107)**	**81,667**

Notes to the Financial Statements

31 December 2012

30. RESERVES (Continued)

(c) Nature and purpose of the reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

(ii) Contributed surplus

The Company's contributed surplus represents the excess of the fair value of the shares of a subsidiary acquired in prior years, over the nominal value of the Company's shares issued in exchange thereof.

(iii) Equity component of convertible bonds

The value of unexercised equity component of convertible notes issued by the Company recognized in accordance with the accounting policy adopted for convertible notes in note 3(m).

(iv) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3(t)(ii) to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

(v) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the overseas subsidiaries. The reserve is dealt with in accordance with the accounting policy set out in note 3(u).

(d) Distributability of reserves

At 31 December 2012 and 2011, the aggregate amount of reserves available for the distribution to owners of the Company calculated in accordance with the Companies Law of the Cayman Islands was approximately HK$33,757,000 and HK$500,529,000 respectively.

31. CONTINGENT LIABILITIES

The Company has no significant contingent liability as at 31 December 2012.

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31 December 2012

32. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	**–**	1,263
In the second to fifth years, inclusive	**–**	484
	–	1,747

33. CAPITAL COMMITMENTS

The Group did not have any material capital commitments as at 31 December 2012 (31 December 2011: nil).

34. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transaction with a related party during the year:

	2012 HK$'000	2011 HK$'000
Acquisition of property, plant and equipment from a related company	**–**	264

The above transaction was determined by the Group and the related party with reference to the book value, market price and condition of the assets.

(b) Compensation of key management personnel of the Group

	2012 HK$'000	2011 HK$'000
Short term employee benefits	**3,975**	5,626
Post-employment benefits	**19**	24
Equity-settled share option expense	**823**	2,694
Total compensation paid to key management personnel	**4,817**	8,344

Further details of directors' emoluments are included in note 11 to the financial statements.

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35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise convertible bonds, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk and liquidity risk. The Board reviews and agrees policies for managing this risk and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales, purchases or expenditure by operating units in currencies other than the units' functional currencies. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the HK dollar ("HK$") and Rupiahs ("Rp"), with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate %	**Increase/ (decrease) in loss before tax and accumulated loss** HK$'000
2012		
If HK$ weakens against Rp	**10**	**121**
If HK$ strengthens against Rp	**(10)**	**(121)**
2011		
If HK$ weakens against Rp	10	538
If HK$ strengthens against Rp	(10)	(538)

Notes to the Financial Statements

31 December 2012

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of convertible bonds. In addition, banking facilities have been put in place for contingency purposes.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

2012

	Group Within one year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	Total HK$'000
Other payables	**3,814**	**–**	**3,814**
Convertible bonds	**–**	**224,880**	**224,880**
	3,814	**224,880**	**228,694**

2011

	Group Within one year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	Total HK$'000
Other payables	482	–	482
Convertible bonds	–	404,880	404,880
	482	404,880	405,362

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

2012

	Company Within one year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	Total HK$'000
Due to subsidiaries	**26,792**	**–**	**26,792**
Other payables	**3,045**	**–**	**3,045**
Convertible bonds	**–**	**224,880**	**224,880**
	29,837	**224,880**	**254,717**

Notes to the Financial Statements

31 December 2012

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

2011

	Company Within one year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	Total HK$'000
Due to subsidiaries	28,609	–	28,609
Convertible bonds	–	404,880	404,880
	28,609	404,880	433,489

Interest rate risk

The Company has no significant interest-bearing assets except for cash and cash equivalents.

Management will continue to review the market trend, as well as its business operation needs and its financial position in order to identify the most effective tools for the Group's interest rate risk management.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has monitored the exposures on an ongoing basis.

The Group has concentration of credit risk by customers as for 100% (2011: 100%) of trade receivables were due from the Group's largest customer as at 31 December 2012.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. The Group does not provide any other guarantees which would exposure the Group to the credit risk. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21 and 22.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objective policies or processes for managing capital during the year ended 31 December 2012 and 2011.

Notes to the Financial Statements

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35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is total borrowings divided by total capital plus total borrowings. The Group's total borrowings represent convertible bonds. The Group's capital represents the equity attributable to equity holders of the parent.

	Group	
	2012 HK$'000	2011 HK$'000
Convertible bonds	**189,705**	304,111
Total borrowings	**189,705**	304,111
Total capital	**115,802**	580,594
Total capital and borrowings	**305,507**	884,705
Gearing ratio	**62.1%**	34.4%

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

36. EVENTS AFTER THE REPORTING PERIOD

a) On 17 January 2013, 595,000,000 share options were granted to the eligible participants under the share option scheme, among which 93,500,000 and 495,000,000 share options were exercised on 18 January 2013 and 1 February 2013 respectively. Besides, 4,000,000 share options were lapsed on 1 February 2013.

b) Pursuant to the announcement dated on 20 February 2013, the directors propose the share consolidation on the basis that every forty shares of HK$0.01 be consolidated into one consolidated share of HK$0.40 each. In addition, subject to the share consolidation becoming effective, the directors propose the capital reduction pursuant to which the par value of each of the issued consolidated shares will be reduced from HK$0.40 to HK$0.01 each by cancelling the paid-up capital to the extent of HK$0.39 per issued consolidated shares.

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37. ISSUED BUT NOT YET EFFECTIVE HKFRSs

The following HKFRSs in issue at 31 December 2012 have not been applied in the preparation of the Company's consolidated financial statements for the year then ended since they were not yet effective for the annual period beginning on 1 January 2012:

HKAS 19 (2011)	Employee Benefits
HKAS 27	Separate Financial Statements
HKAS 28	Investments in Associates and Joint Ventures
HKFRS 9	Financial Instruments
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10	Investment Entities
Annual improvements to HKFRSs (2009-2011)	Amendments to HKAS 1, HKAS 16 and HKAS 32.

The Group is required to initially apply these HKFRSs in its annual consolidated financial statements beginning on 1 January 2013, except that the company is required to initially apply Amendments to HKAS 32 and HKFRS 10 in its annual consolidated financial statements beginning on 1 January 2014 and HKFRS 9 in its annual consolidated financial statements beginning on 1 January 2015.

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs upon initial application. So far the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 22 March 2013.

Summary of Financial Information

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years/period, as extracted from the published audited financial statements, is set out below:

RESULTS

	Year ended 31 March 2009 HK$'000	Period from 1 April 2009 to 31 December 2009 HK$'000	Year ended 31 December 2010 HK$'000	Year ended 31 December 2011 HK$'000	**Year ended 31 December 2012 HK$'000**
Revenue	22,672	6,970	6,715	8,891	**7,909**
LOSS BEFORE TAX	(47,403)	(58,622)	(67,454)	(69,526)	**(644,073)**
Income tax	–	–	–	–	**–**
LOSS FOR THE YEAR/PERIOD	(47,403)	(58,622)	(67,454)	(69,526)	**(644,073)**
Attributable to:					
Owners of the Company	(47,322)	(57,436)	(64,294)	(67,157)	**(613,037)**
Non-controlling interests	(81)	(1,186)	(3,160)	(2,369)	**(31,036)**
	(47,403)	(58,622)	(67,454)	(69,526)	**(644,073)**

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 March 2009 HK$'000	As at 31 December 2009 HK$'000	As at 31 December 2010 HK$'000	As at 31 December 2011 HK$'000	**As at 31 December 2012 HK$'000**
TOTAL ASSETS	1,007,319	990,670	951,791	921,601	**314,400**
TOTAL LIABILITIES	(531,364)	(505,432)	(488,050)	(305,635)	**(194,262)**
	475,955	485,238	463,741	615,966	**120,138**
EQUITY:					
Equity attributable to owners of the Company	433,868	444,337	426,000	580,594	**115,802**
Non-controlling interests	42,087	40,901	37,741	35,372	**4,336**
	475,955	485,238	463,741	615,966	**120,138**

Glossary of Terms

GENERAL TERMS

AGM(s)	Annual general meeting(s)
Articles	The Articles of Association of the Company
Audit Committee	The audit committee of the Company
Board	The board of Directors
CEO	The chief executive officer of the Company
Chairman	The chairman of the Company
Code	The Corporate Governance Code under the GEM Listing Rules
Company	Merdeka Resources Holdings Limited
Director(s)	The director(s) of the Company
GEM	The Growth Enterprise Market of the Stock Exchange
GEM Listing Rules	The Rules Governing the Listing of Securities on the GEM
Group	The Company and its subsidiaries
HK or Hong Kong	The Hong Kong Special Administrative Region of PRC
HK$	Hong Kong dollar(s), the lawful currency of Hong Kong
INED(s)	Independent non-executive director(s)
Ivana	Ivana Investments Limited, a substantial shareholder of the Company
Manistar	Manistar Enterprises Limited, a substantial shareholder of the Company and a wholly-owned subsidiary of CCT Telecom
MCL	Merdeka Commodities Limited, a former substantial shareholder of the Company
MCL Convertible Bonds	The convertible bonds issued by the Company to MCL on 12 August 2008 as part of consideration to acquire the forestry business. The convertible bonds, originally due on 12 August 2011 and extended to 12 August 2014, are interest-free and convertible into the Shares at the initial conversion price of HK$0.1 per Share (subject to adjustment according to the terms of the convertible bonds)
MTG	Merdeka Timber Group Ltd., a principal subsidiary of the Company
MTG Group	MTG and its subsidiaries
N/A	Not applicable
Nomination Committee	The nomination committee of the Company
PRC	The People's Republic of China
Remuneration Committee	The remuneration committee of the Company
RMB	Renminbi, the lawful currency of PRC

Glossary of Terms

Rp	Rupiah, the lawful currency of Indonesia
SFO	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	The ordinary share(s) of HK$0.01 each in the share capital of the Company
Shareholder(s)	Holder(s) of the Share(s)
Stock Exchange	The Stock Exchange of Hong Kong Limited
US	The United States of America
USD	United States dollar(s), the lawful currency of US
%	Per cent.

FINANCIAL TERMS

Current Ratio	Current assets divided by current liabilities
Gearing Ratio	Total borrowings (representing bank & other borrowings, convertible notes and finance lease payable) divided by total capital employed (i.e. total Shareholders' fund plus total borrowings)

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