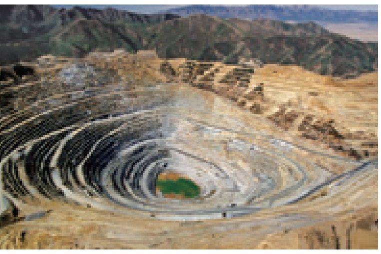
HONBRIDGE HOLDINGS LIMITED
洪 橋 集 團 有 限 公 司

(Stock Code: 8137)

ANNUAL REPORT 2012

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

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Yan Weimin
Mr. Ang Siu Lun, Lawrence

Independent Non-Executive Directors

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

COMPLIANCE OFFICER

Mr. Liu Wei, William

COMPANY SECRETARY

Mr. Lam King Ho CPA(US), CPA(HK), FCCA

AUTHORISED REPRESENTATIVES

Mr. Liu Wei, William
Mr. Lam King Ho

MINING TECHNICAL COMMITTEE

Dr. Dai Ta Gen
Dr. Liu Jian Xin
Dr. Wu Xi Qing

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Chan Chun Wai, Tony *(Committee Chairman)*
Mr. Liu Wei, William
Mr. Ang Siu Lun, Lawrence
Mr. Fok Hon
Mr. Ma Gang

AUDITOR

BDO Limited

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 2703, 27th Floor
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

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

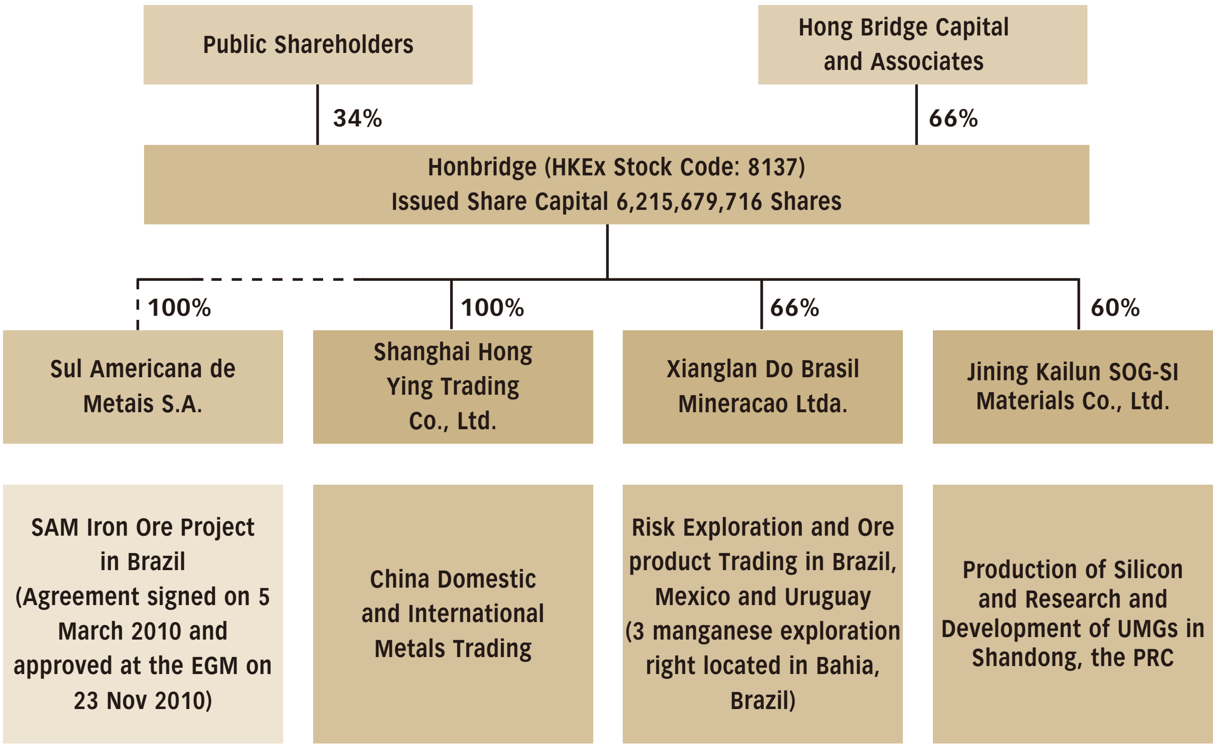
STOCK CODE

8137

COMPANY WEBSITE

www.8137.hk

CORPORATE STRUCTURE



CHAIRMAN'S STATEMENT

I report the activities of the Company and its subsidiaries (together "the Group") for the year ended 31 December 2012.

BUSINESS REVIEW

Sales of the Group's highly purified silicon decreased 85% year on year in 2012. Due to the decreasing price of the highly purified silicon products, this segment is incurring a greater loss and the Company has reduced its production.

The mineral resources and steel metal trading arm contributed HK$407 million revenue to the Group which provided steady cashflow and good return to the Group. Compared to 2011, segment revenue decreased from HK$1,698 million to HK$407 million which is mainly due to the change of the Group's trading pattern and revenue from most of the sales transactions in 2012 was recognised in net basis in accordance with the accounting standards. Segment loss was reduced from HK$332 million in 2011 to HK$180 million in 2012, that was mainly due to the decrease in impairment loss of exploration and evaluation assets and the cessation of the loss-making mineral resources trading business in Latin America in 2012.

PROSPECTS

Since entering into a share purchase agreement on 5 March 2010 with an independent third party Grupo Votorantim's wholly owned subsidiary Votorantim Novos Negócios Ltda. ("VNN") to acquire 100% interest of a company having rich iron mineral resources in Brazil Sul Americana de Metais S.A. ("SAM"), the Group has made substantial progress towards and is at the final stage of the completion of the acquisition.

The directors believe that the acquisitions of SAM will make the business strategy and scope of the Company more focused. Our resources and energy sector (especially the iron ore project) will become the Group's principal business in the near future.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and cooperative partners for their continued support during 2012 and all staff for their hard work.

He Xuechu
Chairman

Hong Kong
27 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2012, the Group recorded turnover of HK$415 million which comprised HK$407 million from mineral resources and steel metal trading and HK$8 million from the sale of highly purified silicon. Loss for the year was HK$270 million which is HK$116 million less than that for the last year. The decrease was mainly due to the net effect of decrease in amortisation of share-based payment expenses of HK$28 million, decrease in impairment of goodwill of HK$31 million, decrease in impairment of exploration and evaluation assets of HK$127 million, increase in imputed loan interest expenses of HK$9 million, and decrease in income tax credit of HK$43 million that have no impact to the Group's cashflows.

The wholly-owned subsidiary of the Company in Shanghai, Shanghai Hongying Trading Co. Ltd. has developed the domestic and international metal products trading business that brings steady cashflow and good return to the Company. Sales of Shanghai Hongying Trading during the year ended 31 December 2012 reached HK$407 million.

PROGRESS OF ACQUISITION OF BRAZILIAN IRON MINING PROJECT SUL AMERICANA DE METAIS S.A.

On 5 March 2010, the Company entered into an agreement with VNN (which is a wholly-owned subsidiary of the Grupo Votorantim), that the Company is acquiring of 100% interests of Sul Americana de Metais S.A. ("SAM"), a Brazil iron mining company, for not more than US$405 million. The payment for this acquisition is scheduled by five installments based on the progress of the project:

Resource confirmation is made — US$10 million;

Beneficiation test reached a satisfactory level — US$65 million;

Obtained all the required licenses and approvals for starting the construction — US$115 million;

Port and mine commenced operation and production respectively — US$100 million each.

On 7 February 2013, the Group entered into a supplementary agreement with the Vendor, pursuant to which, if the Group opt to pay the third payment within six months after completion of the transaction, the fourth and fifth payment will each be reduced by US$60 million, equivalent to a reduction of US$120 million to the aggregate consideration.

The Group has paid US$10 million as the first installment of the Consideration and US$0.42 million as the performance bonus for an earlier completion. As the beneficiation test has reached a satisfactory level, the Group determined to complete the transaction with VNN by the end of March 2013. Upon completion, the Group will pay US$65 million as the second installment of the Consideration and be assigned the 99.99% equity interest of SAM. Following the date of completion, SAM will become a subsidiary of the Group.

In addition, on 5 March 2010, the Group entered into the Loan Agreement with SAM. Pursuant to the Loan Agreement, the Group provided US$35 million to SAM for the purposes of completing the Initial Scope of Work. The loan, in the amount of US$35 million, was paid by installment from 1 April 2010 to August 2012 and fully utilized. On 7 February 2013, the same date as the Group entered into the supplementary agreement with VNN, the Group also entered into the second loan agreement with VNN in relation to the loan of US$7 million by the Group to SAM on an immediate basis. Since then, the Group has provided a total of US$42 million to SAM free of any interest. After SAM becomes a subsidiary of the Group, the Group will still provide capital to SAM by way of loan or capital injection for the purpose of development of the project.

As of the date of this report, SAM held 74 Exploration Rights in 9 blocks (Block 5, 6, 7, 8, 9, 10, 11, 12 and 13) covering an area of approximately 107,000 hectares. Besides, SAM has submitted application for 9 additional Exploration Rights and 1 will be transferred to SAM from SAM's affiliates, subject to the approval of DNPM. Lastly, SAM have filed bid for 19 Exploration Rights and is pending tender results.

PROGRESS OF ACQUISITION OF BRAZILIAN IRON MINING PROJECT SUL AMERICANA DE METAIS S.A. – CONTINUED

SAM plans to construct a beneficiation plant (phase I) with an annual capacity of 25 million tons of 65% or above Fe concentrate in Block 8, which mainly includes infrastructure facilities such as mining and beneficiation facilities, utilities, slurry pipelines and port for iron ore. Block 8 contains approximately 2,600 million tons of measured and indicated ROM based on the JORC standard, which translates into approximately 720 million tons of iron concentrate for a lifespan of over 27 years. The Initial Scope of Work underway in Block 8 includes the obtaining of the required licenses and approvals for starting the construction and preparation of a bankable feasibility study ("BFS") level of feasibility study.

Drilling in Block 7 is underway with a total of 133 drill holes completed, which leads to a cumulative lengths of 20,316 meters. SAM plans to prepare the final exploration report based on the Brazilian mining standards in the short term. It is expected that potential resources level in Block 7 will reach 3,000 million tons of ROM approximately.

Geographic map of a new licensed exploration area north to Block 8 shows that potential resources level will reach 2,300 million tons of ROM approximately.

SAM will commence the geological work for the other 7 blocks in accordance with Brazilian laws and extend the terms of exploration rights for those with resources potential. SAM will kick off Phase II in due course.

SAM has approximately 50 staff in Brazil, and has engaged over 20 professional consultancies and laboratories in Brazil, China, Chile and USA to assist in its initial scope research and analysis.

1. Licenses and Approvals for Commencement of Construction

Construction of Block 8 (phase I) shall obtain 8 major approvals according to the Brazilian laws, including:

Vegetation Suppression License (ASV): owners of the mines and lands along the pipelines have confirmed that, SAM may apply to the government for the permit after they have agreed on the acquisition, usage and road crossing issues with the owners.

Preliminary License (LP): Environmental impact assessment (EIA) has been submitted to IBAMA on 3 July 2012 and was accepted on 21 August 2012. The hearing was completed in January 2013, pending final review and granting of license.

Installation License (LI): SAM is in the process of preparing the basic environment plan (PBA)

Mining License (PL): The last document, namely economic viability report, was submitted on 6 March 2013, pending review and granting of license.

Landowners Expropriation Authorization: The relevant governmental authorities are in the process of final approval.

Federal Water License and State Water License: The Brazilian Federal Water Authority has granted SAM a water right in March 2012, which allows SAM to have an annual water consumption of 51 million cubic meters from the Irape Dam for 20 consecutive years. The Irape Dam is approximately 50 kilometers from the beneficiation plant. Agreement was reached with the State of Minas to construct a dam in Vacaria, which is 17 kilometers from the beneficiation plant, with an annual water consumption of 60 million cubic meters. Either of the licenses will satisfy the requirement.

ANTAQ Port Operating License: The license was granted in November 2012. SAM is in the process of preparing the PBA.

SAM will seek to obtain all licenses and approvals for commencement of construction by the end of 2013 or in the first quarter of 2014.

PROGRESS OF ACQUISITION OF BRAZILIAN IRON MINING PROJECT SUL AMERICANA DE METAIS S.A. – CONTINUED

2. Construction Phase I

For the construction of Block 8 (phase I), following completion of detailed exploration drilling in January 2011, beneficiation test has been duly completed in February 2013. Detailed engineering design for mining, beneficiation, water supply, electricity supply, pipelines and ports will commence. Following completion of the BFS, tender for the construction project and large-scale construction work will commence. If all licenses and approvals for starting the construction are obtained in the first quarter of 2014, the mine is expected to commence operation by the end of 2015 or in the first half of 2016.

Based on the latest study, the latest estimation by the management on the capital expenditure ("CAPEX") and operational expenditure ("OPEX") (per ton of iron concentrate) of construction project phase I are:

CAPEX (US$'000 million)		**OPEX/ton (US$)**	
Mining	3.8	Mining	7.36
Beneficiation	16.0	Beneficiation	13.78
Pipeline	9.0	Pipeline	0.78
Filtering	3.0	Filtering	1.12
Port	5.0	Port	4.05
Feasibility study	1.2	Management fee	1.07
		Sales expenses	1.00
		Patent fees	2.66
Total	**38.0**		**31.82**

The Group has analyzed the CAPEX of a number of comparable mines and OPEX (per ton of iron concentrate) of over 300 operating iron mines. Relatively, construction phase I of Block 8 is highly competitive in terms of both CAPEX and OPEX. Regardless of the trend in global iron ore demand, iron concentrate products of SAM is highly competitive in terms of costs.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2012, the Group's operation was mainly financed by the internal financial resources and the substantial shareholder of the Group.

As at 31 December 2012, the Group had net current assets of HK$818.7 million (31 December 2011: HK$14.7 million). Current assets comprised assets of disposal group classified as held for sale of HK$1,271.2 million, inventories of HK$2.8 million, restricted bank deposits of HK$40.3 million, cash and cash equivalents of HK$2.4 million, trade and bill receivables of HK$261.4 million, prepayments and other receivables of HK$96.3 million, and derivative financial assets of HK$6.6 million. Current liabilities comprised liabilities of disposal group classified as held for sale of HK$431.4 million, trade and bill payables of HK$267.9 million, other payables, accrued expenses and receipts in advance of HK$28.4 million, borrowings of HK$127.8 million and loans from a non-controlling interest of a subsidiary of HK$6.8 million.

As at 31 December 2012, the gearing ratio of the Group which is measured by total loans and borrowings to total equity was 0.80 (31 December 2011: 0.46).

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

MAJOR ACQUISITION

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

MAJOR ACQUISITION – CONTINUED

According to the loan agreement entered into between the Company and SAM, the Company has remitted USD42 million in aggregate to SAM, for the purposes of resource confirmation, beneficiation tests and pre-feasibility study. SAM plans to construct a processing plant in Block 8 and related infrastructure facilities carrying capacity of 25 million tonnes of 65% iron concentrate per year.

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

MAJOR DISPOSAL

On 4 January 2013, an agreement was entered into between the Company and a shareholder of the Company, Brilliant People Limited (the "Buyer"), to dispose the entire share capital of a wholly owned subsidiary of the Company, Hill Talent Limited, from the Company to the Buyer. Major assets of Hill Talent comprise three manganese exploration licences in Brazil and a subsidiary in Mexico engaging in minerals trading. On 1 February 2013, a supplemental agreement was entered into between the Company and the Buyer to amend the payment terms of the disposal. Details of the disposal are disclosed in the Company's announcements on 4 January 2013 and 1 February 2013. As of the date of this report, the disposal has not yet been completed and further details of the disposal will be released in due course.

SIGNIFICANT INVESTMENT PLANS

Save as disclosed above, as at 31 December 2012, the Group did not have any significant investment plans.

CAPITAL COMMITMENTS

As at 31 December 2012, the Group has contracted but not provided for capital commitments in relation to the acquisition of SAM amounting to USD380 million (equivalent to approximately HK$2,945,228,000). Other property, plant and equipment capital commitments amounted to approximately HK$1,884,000.

CONTINGENT LIABILITIES

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

PROSPECT

The Company has announced the disposal of its manganese exploration subsidiary in Brazil and the minerals trading business in Mexico. The disposal is expected to complete in the first half of 2013. After the disposal, the Group could then be able to concentrate all its resources on the Brazil SAM Iron Mine Project.

Regarding the metal products trading business, the Group has appointed a non-exclusive distributor in China through its wholly owned subsidiary established in Shanghai, Hongying Trading, to develop the metal trading business in China and other overseas markets.

The Directors expect that the metal trading business will bring steady cashflow and good return to the Company in the year ahead and that the Brazil SAM Iron Mine Project could enhance the growth potential of the Group.

EMPLOYEES

As at 31 December 2012, the total number of employees of the Group was 30 (2011: 148). Employees' cost (including directors' emoluments) amounted to HK$30.7 million for the year (2011: HK$62.6 million).

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. He Xuechu, aged 50, is the Chairman of the Company. Mr. He has extensive experience in financial management and in the investment field, is principally responsible for the Group's strategic planning and positioning. Mr. He graduated from 安徽財貿學院 (Anhui Finance and Trade College), the PRC in 1983. Since then, he has worked in 中華人民共和國商業部 (the Domestic Trade Ministry of the PRC), and China Resources (Holdings) Co. Ltd. During the period from 2001 to 2005, Mr. He was a director and shareholder of a number of companies, the shares of which are listed on the Stock Exchange, including Shanghai Zendai Property Limited (stock code: 0755) and Geely Automobile Holdings Limited (stock code: 0175). Mr. He is also director of Divine Mission Holdings Limited, Kailun Photovoltaic Materials Investments Limited, 濟寧凱倫光伏材料有限公司 (Jining Kailun Sog-Si Materials Co., Ltd.*), Infinite Sky Investments Limited and New Trinity Holdings Limited, etc., all being subsidiaries of the Company.

Mr. Liu Wei, William, aged 48, is the Chief Executive Officer of the Company. Mr. Liu has over 10 years of experience in corporate banking and corporate finance, including his previous employment with The Hongkong Chinese Bank Ltd. and Lippo Group. During the period from 2004 to 2006, Mr. Liu was a director of Hans Energy Company Limited (stock code: 0554), the shares of which are listed on the Stock Exchange. Mr. Liu was also a director of China Metal and Technologies (H.K.) Limited, a private company engaged in the trading of non-ferrous metal. He was the managing director of a private company engaged in media business. Mr. Liu was experienced in the publication business and was involved in the publication of 世界經濟論壇 (World Economic Review), 今日健康生活 (Healthy Life Today) and 中國新聞周刊 (China News Weekly) during his tenure with the above private company. Mr. Liu holds a master degree in business administration from the University of San Francisco. Mr. Liu is also director of Divine Mission Holdings Limited, Kailun Photovoltaic Materials Investments Limited, 濟寧凱倫光伏材料有限公司 (Jining Kailun Sog-Si Materials Co., Ltd.), Infinite Sky Investments Limited, New Trinity Holdings Limited, Honbridge International Trading Company Limited and上海洪鷹貿易有限公司(Shanghai Hongying Trading Co. Ltd.), all being subsidiaries of the Company. Mr. Liu is also a director of New Potential Development Limited, a company principally engaged in the after sale services of automobiles.

Mr. Shi Lixin, aged 45, a postgraduate diploma holder in business administration from the University of Wales College, Newport, has experience in mergers and acquisitions and project finance. Mr. Shi is the chief executive officer of 萬博港工業品超市有限公司 (Wanbo Industrial Provision & Exposition Co., Ltd.) since 2003 and was once the special assistant to the chairman of 湖南投資集團股份有限公司 (Hunan Investment (Group) Corporation). Mr. Shi was also the chief executive officer of a company which was involved in the business procurement of湘潭高新技術產業開發區(Xiangtang Hi-Tech Industrial Development Zone), which in turn contains the 湘潭(德國)工業園 (Xiangtang (Germany) Industrial Park). Mr. Shi is also director of 濟寧凱倫光伏材料有限公司 and 上海洪鷹貿易有限公司 (Shanghai Hongying Trading Co. Ltd.).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Ang Siu Lun, Lawrence, aged 52, holds a Bachelor of Science degree in physics and computer science and a Master Business Administration degree from the Chinese University of Hong Kong. Prior to joining the Group, Mr. Ang worked in a number of major international investment banks for seventeen years with extensive experience in equity research, investment banking and financial analysis, focusing on China asset market, automobile industry and investment banking business. Mr. Ang is an executive director of Geely Automobile Holdings Limited (HK Stock Code: 175) and an independent non-executive director of Genvon Group Limited (HK Stock Code: 2389). Mr. Ang assists the Group's capital market activities and investor relations.

Mr. Yan Weimin, aged 45, graduated from Central South University in 1989 majoring in automation. He also holds an EMBA degree of United Business Institutes (UBI) in Belgium. Mr. Yan has 20 years experience in the trading of mineral products. He has served in Shanghai Guohong Trading Co. Ltd. as the general manager and Shanghai Yingyue Industrial Co. Ltd as the chairman. Mr. Yan is responsible as the Group's contact person for Mainland China's steel conglomerates, mining corporations, and port and mining construction enterprises. He is also a director and the chairman of 上海洪鷹貿易有限公司 (Shanghai Hongying Trading Co. Ltd.).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chun Wai, Tony, aged 41, joined the Company as Independent Non-Executive Director in October 2007. Mr. Chan is a Certified Public Accountant and works as a director in a certified public accounting practice. He has extensive experience in general assurance and business advisory services in both Hong Kong and the PRC. Moreover, Mr. Chan has extensive experience in public listings in Hong Kong and Singapore, mergers and acquisitions as well as corporate finance. He holds a Master degree in Business Administration from the Manchester Business School. Mr. Chan is now the independent non-executive director of Hans Energy Company Limited, Wai Chun Mining Industry Group Company Limited and Oriental City Group Holdings Limited, the shares of which are listed on the Hong Kong Stock Exchange.

Mr. Fok Hon, aged 55, is a director for several companies in Hong Kong including All Leaders Publication Group Ltd., which is engaged in media and publishing business, including publication of financial monthly "All Asian Leaders", commercial forum and seminar relevant services, e-commerce platform "Chinese-No.1.com" which only serves global high-end Chinese business leaders, and etc.. Since 2000 Mr. Fok became the founding director and at present the director of The Global Foundation of Distinguished Chinese Ltd., a charitable organization registered in Hong Kong.

Mr. Ma Gang, aged 56, graduated from Anhui Finance and Trade College, the PRC in 1983 with a Bachelor degree in Economics. Between 2004 and 2006, Mr. Ma was employed as the vice managing director of Shanghai HongYe Real Estate Development Co. Ltd. which is principally engaged in properties development business.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

MINING TECHNICAL COMMITTEE

Dr. Dai Ta Gen, aged 60, graduated from Central South University of Technology with his doctorate degree in 1989 and is the Dean of Geosciences and Environmental Engineering Faculty of Central South University as well as a professor and a tutor of doctoral students. Being the expert who takes the special allowance from the State Council, Dr. Dai participates in major posts in geological sector. He is also the vice president of Hunan Geology Society, the president of Hunan Society of Mineralogy, Petrology and Geochemistry and a member of Teaching Committee of Applied Geology in Education Department.

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

Dr. Liu Jian Xin, aged 50, obtained the Globe Exploration and Information Technology doctoral degree from Central South University in 2006. Dr. Liu is the Dean of Information Physics Engineering Faculty of Central South University as well as a professor and a tutor of doctoral students. Dr. Liu is a leader of the Hunan Province Higher Education "Mineral Resources and Disasters Exploration" research innovation team.

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

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

Dr. Wu Xiqing, aged 50, awarded a bachelor degree in ore beneficiation by Central South College of Mining and Metallurgy in 1984, a master degree in Minerals Processing by Central South University of Technology in 1988, and a doctor of philosophy (PhD) in Minerals Engineering by the Imperial College of Science, Technology and Medicine, University of London in 2002. Dr. Wu is a senior engineer and the deputy dean of the Minerals Processing Department at the Central South University.

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Lam King Ho, aged 43, joined the Company in 2007. Mr. Lam has worked as the financial controller of an oil engineering company and assisted its public listing in Hong Kong. He has also worked as the chief financial officer of a paper products company and assisted its public listing in the United States. Prior to that, Mr. Lam has extensive listed companies assurance and advisory experience in the Beijing and Hong Kong offices of the largest international accounting firms. He holds a bachelor degree in accounting and finance and a postgraduate diploma in business administration. He is a practising certified public accountant, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and a member of the American Institute of Certified Public Accountants.

DIRECTORS' REPORT

The Directors of the Company present their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 19 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 30 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

FINANCIAL SUMMARY

A summary of the results of the Group for the last five financial years is set out on page 108 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

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

DIRECTORS

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

Executive Director:

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

Non-Executive Director:

Mr. Yan Weimin
Mr. Ang Siu Lun, Lawrence

Independent Non-Executive Director:

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

In accordance with Article 116 of the Articles of Association of the Company, Mr. Liu Wei, William, Mr. Yan Weimin and Mr. Ang Siu Lun, Lawrence will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. All other remaining Directors continue in office.

DIRECTORS' SERVICE CONTRACTS

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

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

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

As at 31 December 2012, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

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

	Number of shares in the Company					
Name of director	Beneficial owner	Interest of spouse	Interest of controlled corporation	Number of Share option [2]	Total	Approximate percentage of shareholding (%)
HE Xuechu	–	22,460,000	4,065,000,000[1]	–	4,087,460,000	65.76
LIU Wei, William	–	–	–	40,000,000	40,000,000	0.64
SHI Lixin	–	–	–	30,000,000	30,000,000	0.48
YAN Weimin	30,000,000	–	–	30,000,000	60,000,000	0.97
ANG Siu Lun, Lawrence	–	–	–	15,000,000	15,000,000	0.24
CHAN Chun Wai, Tony	–	–	–	3,000,000	3,000,000	0.05
FOK Hon	–	–	–	3,000,000	3,000,000	0.05
MA Gang	–	–	–	3,000,000	3,000,000	0.05

Notes:

1. The 4,065,000,000 shares were held by Hong Bridge Capital Limited ("Hong Bridge"). Mr. HE Xuechu is the controlling shareholder and director holding 68% equity interest of Hong Bridge.

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

Save as disclosed above and the interests as disclosed below, none of the Directors or chief executives of the Company had, as at 31 December 2012, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Scheme") was adopted on 21 May 2012 and became effective on the same date. Particulars of the Scheme as required under the GEM Listing Rules are set out below:

(i) Summary of the Scheme

1. *Purpose of the Scheme*

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

2. *Participants of the Scheme*

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

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

Pursuant to the letter issued by the Stock Exchange on 21 May 2012, the total number of Shares available for issue under options which may be granted under the Scheme is 621,567,971 Shares, being 10% of the issued share capital immediately following adoption of the Scheme on 21 May 2012.

As at 31 December 2012, an aggregate of 438,000,000 Shares were issuable pursuant to share options granted under the Scheme and Option Deed. For the year ended 31 December 2012, 21,000,000 options were granted while no options were exercised by the grantee and 20,240,000 options were lapsed pursuant to the Scheme.

As at 31 December 2012, the total number of Shares available for issue pursuant to the grant of further options under the Scheme was 600,567,971, representing approximately 9.7% of the issued share capital of the Company as at 31 December 2012.

SHARE OPTION SCHEME — CONTINUED

(i) Summary of the Scheme — Continued

4. *Maximum entitlement of each participant*

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

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

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

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

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

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

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

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

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

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

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

(c) the nominal value of a Share.

9. *Remaining life of the Scheme*

Subject to early termination of the Scheme pursuant to the terms thereof, the Scheme shall be valid and effective for a period of 10 years commencing from the date on which the Scheme becomes effective, i.e. 21 May 2012 and ending on 20 May 2022.

Details of the principal terms of the Scheme are summarised under the sub-section headed "SUMMARY OF THE PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME" in Appendix III to the Circular of the Company dated 16 April 2012.

SHARE OPTION SCHEME — CONTINUED

(ii) Details of options granted

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

	Number of share options										
Name or category of participant	Outstanding as at 01/01/2012	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31/12/2012	Date of grant of share options	Exercise period of share options	Exercise price per share option	Price immediately preceding the grant date of share options (Note b)	Price immediately preceding the exercise date of share options (Note c)
									HK$	HK$	HK$
Director											
LIU Wei, William	10,000,000	–	–	(10,000,000)	–	–	22/11/2007	22/05/2008–21/11/2012	1.20	1.20	N/A
	30,000,000	–	–	–	–	30,000,000	06/05/2010	06/05/2011–05/05/2018	2.60	2.13	N/A
	–	10,000,000	–	–	–	10,000,000	28/05/2012	28/05/2012–27/05/2020	0.95	0.91	N/A
SHI Lixin	10,000,000	–	–	(10,000,000)	–	–	22/11/2007	22/05/2008–21/11/2012	1.20	1.20	N/A
	20,000,000	–	–	–	–	20,000,000	06/05/2010	06/05/2011–05/05/2018	2.60	2.13	N/A
	–	10,000,000	–	–	–	10,000,000	28/05/2012	28/05/2012–27/05/2020	0.95	0.91	N/A
YAN Weimin	30,000,000	–	–	–	–	30,000,000	06/05/2010	06/05/2011–05/05/2018	2.60	2.13	N/A
ANG Siu Lun, Lawrence	15,000,000	–	–	–	–	15,000,000	06/05/2010	06/05/2011–05/05/2018	2.60	2.13	N/A
CHAN Chun Wai, Tony	3,000,000	–	–	–	–	3,000,000	06/05/2010	06/05/2011–05/05/2018	2.60	2.13	N/A
FOK Hon	3,000,000	–	–	–	–	3,000,000	06/05/2010	06/05/2011–05/05/2018	2.60	2.13	N/A
MA Gang	3,000,000	–	–	–	–	3,000,000	06/05/2010	06/05/2011–05/05/2018	2.60	2.13	N/A
Sub-total	124,000,000	20,000,000	–	(20,000,000)	–	124,000,000					
Employee	13,000,000	–	–	–	–	13,000,000	06/05/2010	06/05/2011–05/05/2018	2.60	2.13	N/A
	–	1,000,000	–	–	–	1,000,000	28/05/2012	28/05/2012-27/05/2020	0.95	0.91	N/A
Sub-total	13,000,000	1,000,000	–	–	–	14,000,000					
Strategic cooperative partner (Xinwen)	300,000,000	–	–	–	–	300,000,000	25/11/2010	25/11/2010–24/11/2013	3.15	3.09	N/A
Others	240,000	–	–	(240,000)	–	–	15/04/2002	15/04/2003–07/01/2012	0.69	0.68	N/A
Total	437,240,000	21,000,000	–	(20,240,000)	–	438,000,000					

SHARE OPTION SCHEME — CONTINUED

(ii) Details of options granted — CONTINUED

Notes:

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

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

From the date of grant of share options	Exercisable percentage
In the first year	Nil
In the second year	25%
After the second year	75%

Share options granted on 25 November 2010 under the Option Deed and on 28 May 2012 under the Scheme are exercisable on whole on the date of grant of the share options.

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

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

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 December 2012, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed "CONNECTED TRANSACTIONS" below, no contracts of significance to which the Company, its ultimate holding company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

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

As at 31 December 2012, the following persons, other than the Directors or chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

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

	Number of Shares in the Company				
Name of Shareholder	Beneficial owner	Interest of spouse	Interests of controlled corporation	Total number of shares held	Approximate percentage of shareholding (%)
Hong Bridge	4,065,000,000	–	–	4,065,000,000	65.40
HE Yuechu (Note 2)	–	22,460,000	4,065,000,000 (Note 1)	4,087,460,000	65.76
FOO Yatyan (Note 2)	22,460,000	4,065,000,000	–	4,087,460,000	65.76
LI Xing Xing	–	–	4,065,000,000 (Note 3)	4,065,000,000	65.40
Brilliant People Limited	840,568,000 (Note 4)	–	–	840,568,000	13.52

Notes:

1. The 4,065,000,000 shares were held by Hong Bridge. Mr. HE Xuechu is the controlling shareholder and director holding 68% equity interest of Hong Bridge.

2. Ms. FOO Yatyan is the spouse of Mr. HE Xuechu.

3. The 4,065,000,000 share were held by Hong Bridge. Mr. LI Xing Xing holds 32% equity interest of Hong Bridge.

4. The 840,568,000 shares held by Brilliant People Limited represent 440,568,000 shares of the Company and 400,000,000 shares to be alloted and issued upon exercise of conversion rights attaching to the HK$400,000,000 convertible notes with an initial conversion price of HK$1.0 per conversion share of the Company.

Save as disclosed above, as at 31 December 2012, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT SHAREHOLDERS

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

CONNECTED TRANSACTIONS

For the year ended 31 December 2012, the Group has sold approximately HK$403,849,000 of copper and steel products to Shanghai Yingyue Industrial Co. Ltd., a company connected with a non-executive director of the Company, Mr. YAN Weimin. These sales were presented in gross amounts as "Sale of copper and steel products" or in net amounts as "Revenue from trading commodity contracts" depending on the nature of transactions.

Pursuant to GEM Listing Rule 20.38, the Board has engaged the auditor to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has confirmed the continuing connected transactions in accordance with GEM Listing Rule 20.38 and issued an unqualified letter containing their findings and conclusions accordingly. The independent non-executive Directors have confirmed the continuing connected transactions in accordance with GEM Listing Rule 20.38.

Specifically, the independent non-executive Directors have reviewed the continuing connected transactions and the unqualified letter from the auditor and have confirmed that the continuing connected transactions entered into by the Group were in theordinary and usual course of its business, on normal commercial terms, or on terms no less favourable than terms available to or from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the Shareholders as a whole.

In the opinion of the independent non-executive Directors, these transactions entered into by the Group were:

(1) in the ordinary and usual course of its business;

(2) on normal commercial terms or on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties;

(3) in accordance with the terms of agreements governing them on terms that are fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the shareholders of the Company as a whole; and

(4) within the relevant cap amounts as disclosed in previous announcements.

Save as disclosed above, there were no other transactions which are required to be disclosed as continuing connected transactions in accordance with the requirements of the GEM Listing Rule.

CONNECTED TRANSACTIONS — CONTINUED

For the year ended 31 December 2012, the Group has imputed interest on loans from ultimate holding Company of HK$17,138,000, and imputed interest on loan from a minority equity holder of a subsidiary of HK$259,000.

As at 31 December 2012, Hong Bridge Capital Limited, the ultimate holding company of the Company, provided loans aggregating HK$332,844,000 to the Group. The loans are interest free in the first two years and bear interest at prime rate minus 1.25% per annum in the third year.

DIRECTORS' AND MANAGEMENT SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Mr. YAN Weimin, a non-executive director of the Company, is a shareholder holding 98.75% equity interests of Shanghai Yingyue Industrial Co. Ltd. ("Yingyue"), a company incorporated in the PRC. Yingyue is principally engaged in the provision of raw materials for construction (including steel products) in the PRC. An indirect wholly-owned subsidiary of the Company, Shanghai Hongying Trading Co. Ltd. ("Hongying Trading"), is a limited liabilities company incorporated in the PRC for the purpose of carrying out trading of steel and steel related products. Hongying Trading has entered into a distribution agreement with Yingyue, pursuant to which, Yingyue will become a non-exclusive distributor of the steel products sourced by Hongying Trading. Accordingly, Mr. YAN is regarded as interested in such competing business of the Group by virtue of his interest in Yingyue.

Save as disclosed above, none of the Directors or the management shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the year ended 31 December 2012.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

RETIREMENT BENEFITS SCHEME

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

CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, the five largest customers of the Group accounted for 92% of the Group's total turnover and the five largest suppliers of the Group accounted for 98% of the Group's total purchases. In addition, the largest supplier accounted for 73% of the Group's total purchases.

None of the Directors, their associates, or shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest suppliers and customers as at 31 December 2012.

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

During the year ended 31 December 2012, neither the Company, its ultimate holding company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDITORS

The financial statements of the Company for the year ended 31 December 2009 were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Due to a merger of the business of GTHK and BDO Limited ("BDO") to practice in the name of BDO as announced on 26 November 2010, GTHK resigned and BDO was appointed as auditor of the Company effective from 2 December 2010. The financial statements of the Company for the years ended 31 December 2010, 2011 and 2012 were audited by BDO.

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

On behalf of the Board
He Xuechu
Chairman

Hong Kong
27 March 2013

CORPORATE GOVERNANCE REPORT

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company complied with the Code on Corporate Governance Practices (the "CG Code") of the GEM Listing Rules throughout the year ended 31 December 2012 with the exception that the Articles of Association of the Company does not provide that (a) every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting of the Company after their appointment. In view of good corporate governance practices, all Directors have agreed to comply with the GEM Listing Rules and that their term of appointment will be limited accordingly. Furthermore, every director of the Company, including those appointed for a specific term, voluntarily retires from his office by rotation at least once every three years notwithstanding that he is not required to do so by the Articles of Association of the Company.

BOARD COMPOSITION AND BOARD PRACTICES

The Board of Directors (the "Board") of the Company composed of 8 Directors, including the Chairman, the Chief Executive Officer who are Executive Directors, another Executive Director, 2 Non-Executive Directors and 3 Independent Non-Executive Directors. Over one third of the Board are Independent Non-Executive Directors who have appropriate professional qualifications in accounting or related financial management expertise. Their biographies are set out in the Biographical Details of Directors and Senior Management Section on pages 10 to 13 of this annual report.

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

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

A formal written procedure and policy has been adopted by the Board for the appointment of new directors. When selecting potential candidates for directors, skills, experience, expertise, his devotion of time, conflicts of interests are key factors for consideration. The nomination and selection process are performed by the Nomination Committee. The Nomination Committee meets at least once a year in discussing whether the composition, size, structure of the Board is adequate. The Nomination Committee met once with a majority of Directors present. According to the Articles of Association of the Company, one-third, and not exceeding one-third of Directors are subject to reelection. The CG Code states that all Directors must rotate at least once every three years. Despite the non-provision of the clause in the Articles of Association of the Company, every director of the Company, including those appointed for a specific term, voluntarily retires from his office by rotation at least once every three years notwithstanding that he is not required to do so by the Articles of Association of the Company.

BOARD COMPOSITION AND BOARD PRACTICES — CONTINUED

In accordance with the latest recommended best practice of the Code on Corporate Governance Practices effective on 1 April 2012, the Board has set up a nomination committee on 28 March 2012 to (i) review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes; (ii) identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of, individuals nominated or directorships; (iii) assess the independence of independent non-executive directors; and (iv) make recommendations to the board on relevant matters relating to the appointment or reappointment of directors and succession planning for directors in particular the chairman and the chief executive officer.

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

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

The Board meets regularly and held seven meetings in 2012:

	Attendance
Executive Director	
He Xuechu *(Chairman)*	7/7
Liu Wei, William *(Chief Executive Officer)*	7/7
Shi Lixin	7/7
Non-Executive Director	
Yan Weimin	7/7
Ang Siu Lun, Lawrence	7/7
Independent Non-Executive Director	
Chan Chun Wai, Tony	7/7
Fok Hon	6/7
Ma Gang	7/7

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

BOARD COMPOSITION AND BOARD PRACTICES — CONTINUED

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

In 2012, all Directors have received corporate governance training organised by the Company with speakers including directors of a financial consulting firm.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the year ended 31 December 2012.

INTERNAL CONTROL

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the Auditor of the Company about its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 28 to 29 of this annual report.

AUDITORS' REMUNERATION

For the year ended 31 December 2012, the Auditors of the Company received approximately HK$1,200,000 for audit services and HK$50,000 for non-audit services.

AUDIT COMMITTEE

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

During the year, the audit committee held four meetings to review and comment on the Company's 2011 annual report, 2012 half-yearly report and quarterly reports as well as the Company's internal control procedures.

The Group's annual report for the year ended 31 December 2012 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

REMUNERATION COMMITTEE

The Remuneration Committee was set up on 23 March 2005. The Committee members are Mr. Fok Hon (Chairman of the Committee), Mr. Ma Gang, Mr. Chan Chun Wai, Tony, Mr. He Xuechu and Mr. Liu Wei, William. The Committee met once in 2012 and was attended by all Committee members. The policy for the remuneration of Executive Directors and the Senior Management was reviewed by the Committee. Remuneration, including basic salary, performance bonus, of the Executive Directors and Senior Management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice. Granting share options is considered as one of the means for giving long term benefits to and retaining staff.

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

NOMINATION COMMITTEE

Nomination Committee was set up on 28 March 2012. Current Committee members are Mr. CHAN Chun Wai, Tony (Chairman of the Committee), Mr. LIU Wei, William, Mr ANG Siu Lun, Lawrence, Mr. FOK Hon and Mr. MA Gang. The Committee meents at least once every year. Additional meetings shall be held as the work of the Committee demands. The Committee formulates nomination policy for the Board's consideration and implement the Board's approved nomination policy. The Committee met once in 2012 and was attended by all Committee members.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Honbridge Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 30 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the 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.

BDO Limited
Certified Public Accountants

Au Yiu Kwan
Practising Certificate Number P05018

Hong Kong, 27 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CONTINUING OPERATIONS			
Turnover	5	**415,306**	1,756,598
Direct operating expenses		**(412,442)**	(1,740,781)
Other operating income	7	**8,190**	9,678
Selling and distribution costs		**(1,180)**	(851)
Administrative expenses		**(27,284)**	(32,036)
Other operating expenses	8	**(55,069)**	(50,029)
Share-based payment expenses	37	**(23,980)**	(51,861)
Impairment of exploration and evaluation assets	17	**(171,398)**	(298,247)
Impairment of goodwill	20	**–**	(31,051)
Operating losses	8	**(267,857)**	(438,580)
Finance costs	9	**(61,200)**	(52,373)
Losses before income tax		**(329,057)**	(490,953)
Income tax credit	10	**58,767**	101,404
Losses after income tax from continuing operations		**(270,290)**	(389,549)
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	11(b)	**–**	3,001
Losses for the year		**(270,290)**	(386,548)
Other comprehensive income			
Exchange loss on translation of financial statements of foreign operations		**(94,403)**	(158,573)
Other comprehensive income for the year, net of tax		**(94,403)**	(158,573)
Total comprehensive income for the year		**(364,693)**	(545,121)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	**2012 HK$'000**	2011 HK$'000
Losses for the year attributable to:			
Owners of the Company	12	**(221,699)**	(304,839)
Non-controlling interests		**(48,591)**	(81,709)
		(270,290)	(386,548)
Total comprehensive income attributable to:			
Owners of the Company		**(283,462)**	(409,952)
Non-controlling interests		**(81,231)**	(135,169)
		(364,693)	(545,121)
Losses per share from continuing and discontinued operations	13(a)		
– Basic		**HK(3.57) cents**	HK(4.96) cents
– Diluted		**N/A**	N/A
Losses per share from continuing operations	13(b)		
– Basic		**HK(3.57) cents**	HK(5.01) cents
– Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**1,219**	26,757
Exploration and evaluation assets	17	**–**	1,581,000
Prepaid land lease payments	18	**21,403**	21,700
Goodwill	20	**–**	–
Deposits for acquisition of business	21	**81,265**	81,265
Loans to an acquiring business	22	**262,434**	219,808
		366,321	1,930,530
Current assets			
Inventories	23	**2,777**	17,918
Trade and bill receivables	24	**261,437**	262,138
Prepayments and other receivables	25	**96,366**	718,342
Derivative financial assets	26	**6,569**	11,295
Restricted bank deposits	28	**40,341**	37,498
Cash and cash equivalents	28	**2,360**	35,838
		409,850	1,083,029
Assets of disposal group classified as held for sale	11(a)	**1,271,161**	–
Total current assets		**1,681,011**	1,083,029
Current liabilities			
Trade and bill payables	29	**267,855**	202,207
Other payables, accrued expenses and receipts in advance	30	**28,451**	701,917
Borrowings	31	**127,797**	157,678
Loans from non-controlling interest of a subsidiary	32	**6,800**	6,541
		430,903	1,068,343
Liabilities of disposal group classified as held for sale	11(a)	**431,440**	–
Total current liabilities		**862,343**	1,068,343
Net current assets		**818,668**	14,686
Total assets less current liabilities		**1,184,989**	1,945,216
Non-current liabilities			
Loans from ultimate holding company	33	**330,194**	262,390
Convertible bonds	34	**270,175**	226,485
Deferred tax liabilities	35	**693**	538,725
		601,062	1,027,600
Net assets		**583,927**	917,616

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
EQUITY			
Equity attributable to the owners of the Company			
Share capital	36	**6,216**	6,206
Reserves	38	**298,523**	550,991
		304,739	557,197
Non-controlling interests		**279,188**	360,419
Total equity		**583,927**	917,616

He Xuechu
Chairman

Liu Wei, William
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	–	209
Investments in subsidiaries	19	1,136	736,396
Deposits for acquisition of business	21	3,265	3,265
Loans to an acquiring business	22	262,434	219,808
		266,835	959,678
Current assets			
Prepayments and other receivables	25	913	2,270
Derivative financial assets	26	6,569	11,295
Amounts due from subsidiaries	27	86,180	86,180
Cash and cash equivalents	28	130	2,847
		93,792	102,592
Asset held for sale	11(a)	563,661	–
		657,453	102,592
Current liabilities			
Accrued expenses	30	1,340	1,340
Amounts due to subsidiaries	27	1,078	1,078
		2,418	2,418
Net current assets		655,035	100,174
Total assets less current liabilities		921,870	1,059,852
Non-current liabilities			
Loans from ultimate holding company	33	330,194	262,390
Convertible bonds	34	270,175	226,485
		600,369	488,875
Net assets		321,501	570,977
EQUITY			
Share capital	36	6,216	6,206
Reserves	38	315,285	564,771
Total equity		321,501	570,977

He Xuechu
Chairman

Liu Wei, William
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from operating activities			
(Loss)/Profit before income tax:			
Continuing operations		**(329,057)**	(490,953)
Discontinued operations		**–**	3,001
		(329,057)	(487,952)
Adjustments for:			
Depreciation of property, plant and equipment	16	**2,573**	2,374
Amortisation of prepaid land lease payments	18	**484**	473
Impairment of property, plant and equipment	8	**23,083**	12,036
Impairment of exploration and evaluation assets	17	**171,398**	298,247
Impairment of goodwill	20	**–**	31,051
Write-off of other receivables	8	**5,361**	–
Write-down of inventories	8	**11,995**	–
Interest expense on other loans	9	**113**	502
Interest expense on convertible bonds	9	**43,690**	37,152
Interest expense on loans from ultimate holding company	9	**17,138**	14,407
Interest expense on loans from non-controlling interest of a subsidiary	9	**259**	312
Fair value loss on initial recognition of loans to an acquiring business	8	**9,781**	4,667
Fair value loss on derivative financial assets	8	**4,726**	33,059
Share-based payment expenses		**23,980**	51,861
Bank interest income	7	**(670)**	(53)
Interest income on loans to an acquiring business	7	**(6,326)**	(7,426)
Losses on disposals of property, plant and equipment		**33**	89
Gain on disposals of subsidiaries	43	**–**	(4,241)
Operating loss before working capital changes		**(21,439)**	(13,442)
Decrease/(Increase) in inventories		**3,146**	(9,232)
Decrease/(Increase) in trade and bill receivables		**701**	(257,956)
Decrease/(Increase) in prepayments and other receivables		**615,180**	(707,923)
Increase in trade and bill payables		**65,648**	198,958
(Decrease)/Increase in other payables, accrued expenses and receipts in advance		**(673,905)**	677,998
Cash used in operations		**(10,669)**	(111,597)
Net cash used in operating activities		**(10,669)**	(111,597)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from investing activities			
Interest received	7	**670**	53
Purchases of property, plant and equipment	16	**(474)**	(3,397)
Proceeds from disposal of property, plant and equipment		**112**	–
Deposits paid for acquisition of business	21	**–**	(3,265)
Increase in restricted bank deposits	28	**(2,843)**	(37,498)
Disposal of subsidiaries, net of cash disposed	43	**–**	444
Loans to an acquiring business		**(46,081)**	(75,546)
Net cash used in investing activities		**(48,616)**	(119,209)
Cash flows from financing activities			
Interest paid on other loans		**(113)**	(502)
Drawdown of borrowings		**123,987**	153,779
Drawdown of loans from ultimate holding company		**67,690**	60,399
Repayments of borrowings		**(154,962)**	(9,311)
Repayments of loans from ultimate holding company		**(10,000)**	(90,000)
Proceeds from issue of share capital		**–**	121,938
Net cash generated from financing activities		**26,602**	236,303
Net (decrease)/increase in cash and cash equivalents		**(32,683)**	5,497
Cash and cash equivalents at 1 January		**35,838**	30,046
Effect of foreign exchange rate changes		**219**	295
Reclassified to assets classified as held for sale	11(a)	**(1,014)**	–
Cash and cash equivalents at 31 December		**2,360**	35,838
Analysis of cash and cash equivalents			
Cash at banks and in hand		**2,360**	35,838

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to the owners of the Company									Non-controlling interests	Total equity
	Share capital	Share premium*	Capital reserve*	Other reserve*	Share-based payment reserve*	Translation reserve*	Convertible bond equity reserve*	Accumulated losses*	Total		
	HK$'000	HK$'000	HK$'000	HK$000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	6,126	527,734	(327)	32,184	317,772	67,136	363,304	(527,173)	786,756	495,588	1,282,344
Issue of shares (note 36)	78	116,660	–	–	–	–	–	–	116,738	–	116,738
Shares issued under share option scheme	2	6,647	–	–	(1,449)	–	–	–	5,200	–	5,200
Arising from loans from ultimate holding company (note 33)	–	–	–	6,267	–	–	–	–	6,267	–	6,267
Equity-settled share-based transactions (note 37)	–	–	–	–	51,861	–	–	–	51,861	–	51,861
Forfeiture of share options	–	–	–	–	(3,142)	–	–	3,142	–	–	–
Disposals of subsidiaries (note 43)	–	–	327	–	–	–	–	–	327	–	327
Transactions with owners	80	123,307	327	6,267	47,270	–	–	3,142	180,393	–	180,393
Loss for the year	–	–	–	–	–	–	–	(304,839)	(304,839)	(81,709)	(386,548)
Other comprehensive income											
Currency translation	–	–	–	–	–	(105,113)	–	–	(105,113)	(53,460)	(158,573)
Total comprehensive income	–	–	–	–	–	(105,113)	–	(304,839)	(409,952)	(135,169)	(545,121)
At 31 December 2011 and 1 January 2012	6,206	651,041	–	38,451	365,042	(37,977)	363,304	(828,870)	557,197	360,419	917,616
Issue of shares (note 36)	10	28,290	–	–	(28,300)	–	–	–	–	–	–
Arising from loans from ultimate holding company (note 33)	–	–	–	7,024	–	–	–	–	7,024	–	7,024
Equity-settled share-based transactions (note 37)	–	–	–	–	23,980	–	–	–	23,980	–	23,980
Lapse of share options (note 37)	–	–	–	–	(3,341)	–	–	3,341	–	–	–
Transactions with owners	10	28,290	–	7,024	(7,661)	–	–	3,341	31,004	–	31,004
Loss for the year	–	–	–	–	–	–	–	(221,699)	(221,699)	(48,591)	(270,290)
Other comprehensive income											
Currency translation	–	-	–	–	–	(61,763)	–	–	(61,763)	(32,640)	(94,403)
Total comprehensive income	–	-	–	–	–	(61,763)	–	(221,699)	(283,462)	(81,231)	(364,693)
At 31 December 2012	6,216	679,331	–	45,475	357,381	(99,740)	363,304	(1,047,228)	304,739	279,188	583,927

* The aggregate amount of these balances of HK$298,523,000 (2011: HK$550,991,000) is included as reserves in the consolidated statement of financial position.

1. GENERAL INFORMATION

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

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 19. The Company and its subsidiaries are collectively referred to as the "Group" hereinafter. The directors of the Company (the "Directors") consider the ultimate holding company as Hong Bridge Capital Limited ("Hong Bridge"), a company incorporated in the British Virgin Islands (the "BVI") with limited liability.

During the year, management intended to dispose of its equity interests in one of the Group's wholly-owned subsidiaries, Hill Talent Limited ("Hill Talent") as the Group would like to focus all its resource in another project and started looking for potential buyers. Hill Talent and its subsidiaries are collectively referred to as the "Hill Talent Group". On 4 January 2013, the Company entered into a conditional disposal agreement (the "Conditional Disposal Agreement") with Brilliant People Limited ("Brilliant People") to sell the entire issued share capital of Hill Talent (the "Disposal"). There were subsequent changes in the terms of the Conditional Disposal Agreement and a supplementary agreement was entered into by the Group on 1 February 2013 to amend the payment terms of the consideration. Details of the Disposal are set out in the Company's announcements dated 4 January 2013 and 1 February 2013. The Disposal constitutes a major transaction and is subject to the approval of shareholders in the extraordinary general meeting. As management considers that the Disposal is highly probable as at 31 December 2012, in accordance with HKFRS 5, the Group has reclassified:

(a) the assets and liabilities of the Hill Talent Group as at 31 December 2012 as assets/liabilities of disposal group classified as held for sale in the Group's consolidated statement of financial position;

(b) the interests in Hill Talent as at 31 December 2012 as asset held for sale in the Company's statement of financial position.

Other than the Disposal, there were no significant changes in the Group's operations during the year.

The financial statements on pages 30 to 107 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as described in note 3. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange (the "GEM Listing Rules").

The financial statements are presented in Hong Kong Dollars ("HK$") which is also the functional currency of the Company. All values are rounded to the nearest thousand ("HK$'000"), except when otherwise indicated.

2. ADOPTION OF NEW OR AMENDED HKFRSs

During the year, the Group has adopted all the amended HKFRSs which are first effective for the reporting year and relevant to the Group. Except as explained below, the adoption of these amended HKFRSs did not result in material changes to the Group's accounting policies.

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

At the date of this report, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The Directors are currently assessing the impact of the new and amended HKFRSs upon initial application. So far, the Directors have preliminarily concluded that the initial application of these HKFRSs will not result in material financial impact on the consolidated financial statements. Information on new and amended HKFRSs that are expected to have an impact on the Group's accounting policies is provided below.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

This standard is effective for accounting periods beginning on or after 1 July 2012. The amendments change the disclosure of items presented in other comprehensive income in the statement of comprehensive income and require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The title used by HKAS 1 for the statement of comprehensive income has changed to "Statement of profit or loss and other comprehensive income". However, HKAS 1 permits entities to use other titles.

HKFRS 9 Financial instruments

This standard is effective for accounting periods beginning on or after 1 January 2015. Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for de-recognition of financial assets and financial liabilities.

2. ADOPTION OF NEW OR AMENDED HKFRSs – CONTINUED

HKFRS 10 Consolidated Financial Statements

This standard is effective for accounting periods beginning on or after 1 January 2013. HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.1 Basis of preparation – Continued

The consolidated financial statements have been prepared on a going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that the Group suffered loss of HK$270,290,000 for the year ended 31 December 2012 (2011: HK$386,548,000). The going concern basis has been adopted on the basis that (1) the Company's holding company, Hong Bridge, and its two shareholders have undertaken to provide financial support to the Group to meet its liabilities as they fall due and to maintain the Group as a going concern for a period at least up to 31 March 2014 and (2) the Directors have been taking active steps to improve the financial positions and working capital of the Group and the Company such as the Disposal (note 1) and issue of convertible bonds in March 2013 (note 46).

Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the financial statements to write down the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. These adjustments have not yet been reflected in the financial statements.

3.2 Business combination and basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using acquisition method. The cost of acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.2 Business combination and basis of consolidation – Continued

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

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

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

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

3.3 Subsidiaries

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.4 Foreign currency translation

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

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

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

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

3.5 Revenue recognition

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

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

– Revenue from trading commodity contracts is recognised on settlement.

– Sale of magazines (being discontinued operations since 2011) is recognised when the magazines are delivered and title has been passed, with advance subscription fee received from subscribers recorded as receipts in advance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.5 Revenue recognition – Continued

- Advertising income (being discontinued operations since 2011) is recognised on the date of the relevant publication issue or on time basis by reference to the period in which the advertisement is published.

- Promotion and marketing income (being discontinued operations since 2011) is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services provided.

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

3.6 Goodwill

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

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

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

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

3.7 Property, plant and equipment

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.7 Property, plant and equipment – Continued

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

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

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

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

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

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

3.8 Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on straight-line method as an expense.

3.9 Exploration and evaluation assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.9 Exploration and evaluation assets – Continued

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

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

Property, plant and equipment, exploration and evaluation assets, prepaid land lease payments and investments in subsidiaries are subject to impairment testing. These are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

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

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

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

3.11 Financial assets

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

Financial assets at fair value through profit or loss

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.11 Financial assets – Continued

Loans and receivables

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

Impairment of financial assets

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

– Significant financial difficulty of the debtor;

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.11 Financial assets – Continued

De-recognition

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

3.12 Inventories

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

3.13 Cash and cash equivalents

For the purpose of the statement of financial position and the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand and at banks, which are not restricted as to use.

3.14 Share capital

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

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

3.15 Leasing

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

The Group as lessee

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

3.16 Financial liabilities

The Group's financial liabilities include trade and bill payables, other payables, borrowings, loans from ultimate holding company, loans from non-controlling interest of a subsidiary, convertible bonds and amounts due to subsidiaries.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.16 Financial liabilities – Continued

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

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

Financial liabilities at amortised cost

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

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

Convertible bonds that contain an equity component

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.16 Financial liabilities – Continued

Trade and other payables

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

3.17 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.17 Accounting for income taxes – Continued

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

(i) the same taxable entity; or

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

3.18 Retirement benefit costs and short-term employee benefits

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

Defined contribution plan

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.18 Retirement benefit costs and short-term employee benefits – Continued

Short-term employee benefits

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

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

3.19 Share-based payments

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.19 Share-based payments – Continued

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

3.20 Borrowing costs

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

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

3.21 Provisions and contingent liabilities

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.22 Segment reporting

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

The Group has identified the following reportable segments:

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

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

Publications operation had been discontinued since 2011. Segment information reported as below does not include any amounts for this discontinued operation, which was described in details in note 11(b).

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

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

3.23 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 key management personnel of the Group or the Company's parent.

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

(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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.23 Related parties – Continued

(b) – CONTINUED

(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 the employees of 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 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 and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

3.24 Discontinued operations

A discontinued operation is a component of the Group's business, operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented on the face of the consolidated statement of comprehensive income, which comprises:

– post-tax profit or loss of the discontinued operation; and

– post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.25 Assets held for sale

Assets held for sale and assets of disposal groups are classified as held for sale if their carrying amount is recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. These assets (and disposal groups), other than financial assets, classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

The carrying value of exploration and evaluation assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Directors consider all facts and circumstances occurred to judge whether these facts and circumstances would suggest that the carrying amount of the exploration and evaluation assets may exceed its recoverable amount (i.e. impaired). Management reassesses the impairment of intangible assets at the reporting dates (note 17).

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

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

(iii) Net realisable value of inventories

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

(iv) Impairment of receivables

Management determines impairment of receivables on a regular basis. This estimate is based on the credit history of the customers/debtors and current market conditions. When management determines that there are indicators of significant financial difficulties of the trade customers/debtors such as default or delinquency in payments, impairment is estimated. When management determines the receivables are uncollectible, they are written off against impairment provision of receivables. Management reassesses the impairment of receivables at the reporting dates.

(v) Depreciation

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

(vi) Share-based payment transactions

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

(vii) Fair value of financial instruments

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

(viii) Contractual obligation of a financial liability

The Group determined the issued convertible bonds contained a liability component on the basis that on settlement, the Group will deliver either cash or another financial asset, or its own shares whose value is determined to exceed substantially the value of the cash or other financial assets. Although the Group does not have an explicit obligation to deliver cash or another financial asset, the holder of the asset has in substance been guaranteed a minimum amount equal to at least the cash/other financial asset settlement amount.

5. TURNOVER

Turnover represents total invoiced value of goods supplied and income from provision of services. The amounts of each significant category of revenue recognised in turnover during the year are as follows:

	2012 HK$'000	2011 HK$'000
Continuing operations		
Sale of silicon products	**8,558**	58,727
Sale of copper and steel products	**400,623**	1,666,181
Sale of iron ore and manganese products	**1,173**	31,690
Revenue from trading commodity contracts (note)	**4,952**	–
	415,306	1,756,598

Note: Revenue from trading commodity contracts represented income on contracts to buy or sell copper and steel products by the Group, which were not entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements. Gross sale amount of these transactions was HK$2,458 million during the year.

During the year, gross sales and purchase amounts of these transactions were presented as revenue and direct operating expenses respectively in the Company's quarterly reports. These are now adjusted to present in net amount as revenue from trading commodity contracts in the annual financial statements in compliance with HKAS 39.

6. SEGMENT INFORMATION

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

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

The Company is an investment holding company. Principal places of the Group's operations are Hong Kong, the PRC and Latin America. For the purpose of segment information disclosures under HKFRS 8, the Group regarded the PRC as its country of domicile.

Publications operation had been discontinued since 2011. Segment information reported as below does not include any amounts for this discontinued operations, details of which are set out in note 11(b).

6. SEGMENT INFORMATION – CONTINUED

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

	Mineral resources exploration and trading HK$'000	Silicon products HK$'000	Total HK$'000
Year ended 31 December 2012			
Reportable segment turnover (external customers)	**406,748**	**8,558**	**415,306**
Reportable segment losses	**(180,183)**	**(40,991)**	**(221,174)**
Reportable segment assets	**1,667,286**	**28,631**	**1,695,917**
Reportable segment liabilities	**386,992**	**42,720**	**429,712**
Capital expenditure	**4**	**470**	**474**
Impairment loss on exploration and evaluation assets	**171,398**	**–**	**171,398**
Impairment loss on property, plant and equipment	**–**	**23,083**	**23,083**
Write-off of other receivables	**3,779**	**1,582**	**5,361**
Write-down of inventories	**–**	**11,995**	**11,995**
Interest income	**(667)**	**(3)**	**(670)**
Interest expense	**–**	**372**	**372**
Depreciation	**619**	**1,745**	**2,364**
Amortisation charge	**–**	**484**	**484**
Year ended 31 December 2011			
Reportable segment turnover (external customers)	1,697,871	58,727	1,756,598
Reportable segment losses	(331,529)	(12,299)	(343,828)
Reportable segment assets	2,623,534	72,226	2,695,760
Reportable segment liabilities	1,021,777	45,226	1,067,003
Capital expenditure	2,361	1,007	3,368
Impairment loss on exploration and evaluation assets	298,247	–	298,247
Impairment loss on goodwill	31,051	–	31,051
Impairment loss on property, plant and equipment	–	12,036	12,036
Interest income	(44)	(9)	(53)
Interest expense	91	721	812
Depreciation	313	1,795	2,108
Amortisation charge	–	473	473

6. SEGMENT INFORMATION – CONTINUED

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	2012 HK$'000	2011 HK$'000
Reportable segment turnover	**415,306**	1,756,598
Publications (discontinued operations)	**–**	4,367
Group turnover	**415,306**	1,760,965
Reportable segment losses	**(221,174)**	(343,828)
Other operating income	**6,324**	7,427
Administrative expenses	**(14,892)**	(13,406)
Other operating expenses	**(14,507)**	(37,726)
Share-based payment expenses	**(23,980)**	(51,861)
Finance costs	**(60,828)**	(51,559)
Losses before income tax and discontinued operations	**(329,057)**	(490,953)
Reportable segment assets	**1,695,917**	2,695,760
Property, plant and equipment	**–**	209
Deposit for acquisition of a business	**81,265**	81,265
Loans to an acquiring business	**262,434**	219,808
Prepayments and other receivables	**913**	2,270
Derivative financial assets	**6,569**	11,295
Cash and cash equivalents	**234**	2,952
	2,047,332	3,013,559
Reportable segment liabilities	**429,712**	1,067,003
Other payables and accrued expenses	**1,340**	1,340
Convertible bonds	**270,175**	226,485
Loans from ultimate holding company	**330,194**	262,390
Deferred tax liabilities	**431,984**	538,725
	1,463,405	2,095,943

6. SEGMENT INFORMATION – CONTINUED

The Group's turnover from external customers on continuing operations and its non-current assets (assets of disposal group classified as held for sale and other financial assets are not included) are divided into the following geographical areas:

	2012 HK$'000	2011 HK$'000
Turnover from external customers on continuing operations		
PRC	**414,133**	1,756,598
Latin America	**1,173**	–
Reportable segment turnover from external customers	**415,306**	1,756,598
Non-current assets		
Hong Kong	**81,265**	81,473
PRC	**22,622**	47,768
Latin America	**–**	1,581,481
Reportable segment non-current assets	**103,887**	1,710,722

Geographical location of customers is based on the location at which the goods are delivered whilst geographical location of non-current assets (other than assets of disposal group classified as held for sale) is determined based on the physical location of the asset.

During the year, over 79% (2011: 80%) of the Group's turnover depended on 3 (2011: 3) major customers in the mineral resources exploration and trading segment. Turnover generated from these 3 major customers are HK$180,789,000, HK$81,184,000, and HK$68,737,000 (2011: HK$603,040,000, HK$418,898,000 and HK$416,641,000).

7. OTHER OPERATING INCOME

	2012 HK$'000	2011 HK$'000
Continuing operations		
Bank Interest income	**670**	53
Imputed interest on loans to an acquiring business	**6,326**	7,426
Sundry income	**1,194**	2,199
	8,190	9,678

8. OPERATING LOSSES

	2012 HK$'000	2011 HK$'000
Operating losses are arrived at after charging:		
Continuing operations		
Auditor's remuneration	**1,200**	1,200
Cost of inventories recognised as direct costs	**412,442**	1,710,361
Depreciation	**2,573**	2,353
Amortisation of prepaid land lease payments	**484**	473
Losses on disposals of property, plant and equipment	**33**	89
Minimum lease payments paid under operating leases in respect of rental premises	**4,145**	3,328
Net foreign exchange losses	**376**	643
Other operating expenses:		
– Fair value losses on initial recognition of loans to an acquiring business	**9,781**	4,667
– Fair value losses on derivative financial assets (note 34)	**4,726**	33,059
– Impairment of property plant and equipment	**23,083**	12,036
– Write-off of other receivables	**5,361**	–
– Write-down of inventories	**11,995**	–
– Others	**123**	267
	55,069	50,029

9. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Continuing operations		
Interest charges on other borrowings wholly repayable within five years	**113**	502
Imputed interest on convertible bonds	**43,690**	37,152
Imputed interest on loans from ultimate holding company	**17,138**	14,407
Imputed interest on loans from non-controlling interest of a subsidiary	**259**	312
	61,200	52,373

10. INCOME TAX CREDIT

	2012 HK$'000	2011 HK$'000
Continuing operations		
Deferred tax (note 35)	**58,767**	101,404

During the years ended 31 December 2012 and 31 December 2011, no provision for Hong Kong profits tax has been provided by the Group and the Company as the Group and the Company had no estimated assessable profit arising in or derived from Hong Kong.

During the years ended 31 December 2012 and 31 December 2011, no provision for overseas income tax has been provided by the Group and the Company as the Group and the Company had no estimated assessable profit arising in or derived in the jurisdictions in which the Group operates.

During the year, the PRC corporate income tax rate of 25% (2011: 25%) is applicable to 濟寧凱倫光伏材料有限公司("Kailun PV (Jining)") and Shanghai Hongying Trading Co. Ltd. ("Shanghai Hongying"), being the Group's wholly foreign-owned subsidiaries established in the PRC.

During the year, corporate income tax rates in Brazil, Mexico and Uruguay of 34% (2011: 34%), 30% (2011: 30%) and 25% (2011: 25%) respectively are applicable to Xianglan Do Brasil Mineracao Ltda. ("Xianglan Brazil"), Xianglan Minerales de Mexico, S.A. de C.V. and Sinwon S.A. respectively.

Reconciliation between income tax credit and accounting loss at applicable tax rates:

	2012 HK$'000	2011 HK$'000
Losses before income tax on continuing operations	**(329,057)**	(490,953)
Tax on loss before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(54,294)**	(81,007)
Tax effect of different tax rates of subsidiaries	**(34,297)**	(59,004)
Tax effect of non-deductible expenses	**31,063**	37,949
Tax effect of non-taxable revenue	**(1,265)**	(1,441)
Tax effect of prior year's unrecognised tax losses utilised this year	**(2)**	–
Tax effect of unrecognised tax losses	**–**	2,073
Tax effect on temporary difference not recognised	**28**	26
Income tax credit	**(58,767)**	(101,404)

11. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

(a) Hill Talent

As mentioned in note 1, during the year, management intended to dispose of its equity interests in Hill Talent as the Group would like to focus all its resource in another project and started looking for potential buyers.

Hill Talent beneficially owns as to 66% of the issued shares of Xianglan Brazil, which directly holds 95% of the issued share capital of Xianglan Minerales de Mexico, S.A. de C.V. and the entire issued share capital of Sinwon S.A. Hill Talent and its subsidiaries are collectively referred to as the "Hill Talent Group".

On 4 January 2013, the Company entered into the Conditional Disposal Agreement with Brilliant People to sell the entire issued share capital of Hill Talent for a consideration of HK$715 million (the "Disposal Consideration"). Details of the Disposal are set out in the Company's announcements dated 4 January 2013.

There were subsequent changes in the terms of the Conditional Disposal Agreement and a supplementary agreement was entered into by the Group on 1 February 2013 to amend the payment terms of the consideration. Details of the supplementary agreement are set out in the Company's announcements dated 1 February 2013. The Disposal constitutes a major transaction and is subject to the approval of shareholders in the extraordinary general meeting. As management considers that the Disposal is highly probable as at 31 December 2012, in accordance with HKFRS 5, the Group has reclassified:

11. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS – CONTINUED

(a) Hill Talent – Continued

(i) the assets and liabilities of the Hill Talent Group as at 31 December 2012 as assets/liabilities of disposal group classified as held for sale in the Group's consolidated statement of financial position;

An analysis of assets and liabilities of the Hill Talent Group classified as held for sale as at 31 December 2012 is as follows:

	HK$'000
Assets of disposal group classified as held for sale:	
Property, plant and equipment	209
Exploration and evaluation assets (after impairment as set out in note 17)	1,268,503
Prepayments and other receivables	1,435
Cash and cash equivalents	1,014
	1,271,161
Liabilities of disposal group classified as held for sale:	
Other payables, accrued expenses and receipts in advance	149
Deferred tax liabilities	431,291
	431,440

As the operations of the Hill Talent Group did not represent the major line of business segment of mineral resources exploration and trading of the Group, its operations are not presented as discontinued operations for the year.

(ii) the interest in Hill Talent as at 31 December 2012 as asset held for sale in the Company's statement of financial position.

	HK$'000
Interest in Hill Talent (note 19)	563,661

11. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS – CONTINUED

(b) Great Ready Assets Limited and its subsidiaries

On 31 January 2011, the Company entered into a sale and purchase agreement with Win Gain Investments Limited to sell the entire share capital of Great Ready Assets Limited and its subsidiaries (collectively referred to as the "Great Ready Group"). The disposal was completed on 31 March 2011. As the operations of the Great Ready Assets Group represented the entire business segment of publications of the Group, in accordance with HKFRS 5, the Group presented its operations as discontinued operations for the year ended 31 December 2011.

An analysis of the results and cash flows of the discontinued operations included in the consolidated statement of comprehensive income and the consolidated statement of cash flows are as follows:

	2011 HK$'000
Turnover	4,367
Cost of inventories recognised as expense	(2,636)
Depreciation	(21)
Minimum lease payments paid under operating leases in respect of rental premises	(81)
Wages and salaries	(1,974)
Contribution to defined contribution plans	(81)
Other expenses	(814)
Loss before income tax from discontinued operations	(1,240)
Income tax expense	–
Loss after income tax from discontinued operations	(1,240)
Gain on disposals of subsidiaries (note 43)	4,241
Profit for the year from discontinued operations attributable to the owners of the Company	3,001
Operating cash inflows	1,533
Total cash inflows	1,533

12. LOSSES FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated loss attributable to owners of the Company of HK$221,699,000 (2011: HK$304,839,000), a loss of HK$280,480,000 (2011: HK$346,094,000) (note 38) has been dealt with in the financial statements of the Company.

13. LOSSES PER SHARE

(a) From continuing and discontinuing operations

The calculation of basic losses per share is based on the loss attributable to owners of the Company of HK$221,699,000 (2011: HK$304,839,000) and weighted average of 6,212,557,000 (2011: 6,147,456,000) ordinary shares in issue during the year.

For the year ended 31 December 2012 and 2011, diluted losses per share attributable to owners of the Company are not presented because the impact of the exercise of share options and convertible bonds was anti-dilutive.

(b) From continuing operations

The calculation of basic losses per share from continuing operations is based on the loss attributable to owners of the Company from continuing operations of HK$221,699,000 (2011: HK$307,840,000) and weighted average of 6,212,557,000 (2011: 6,147,456,000) ordinary shares in issue during the year.

For the year ended 31 December 2012 and 2011, diluted losses per share from continuing operations attributable to owners of the Company are not presented because the impact of the exercise of share options and convertible bonds was anti-dilutive.

(c) From discontinued operations

For the year ended 31 December 2012, basic and diluted earnings per share attributable to owners of the Company from discontinued operations are not presented as there is no discontinued operation.

For the year ended 31 December 2011, basic earnings per share attributable to owners of the Company from discontinued operations was HK0.05 cents, based on the profit attributable to the owners of the Company from discontinued operations of HK$3,001,000 and weighted average of 6,147,456,000 ordinary shares in issue for that year.

14. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2012 HK$'000	2011 HK$'000
Continuing operations		
Wages and salaries	**6,307**	8,241
Share-based payment expenses	**23,980**	51,861
Contribution to defined contribution plans	**398**	409
	30,685	60,511

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

	2012 HK$'000	2011 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**3,319**	3,052
Contribution to defined contribution plans	**28**	24
Share-based payment expenses	**21,906**	43,148
	25,253	46,224

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	Fees	Salaries and allowances	Contribution to defined contribution plans	Share-based payment expenses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2012					
Executive directors					
HE Xuechu	**1,147**	**–**	**14**	**–**	**1,161**
LIU Wei, William	**993**	**–**	**14**	**8,191**	**9,198**
SHI Lixin	**–**	**753**	**–**	**6,935**	**7,688**
Non-executive directors					
YAN Weimin	**–**	**–**	**–**	**3,767**	**3,767**
ANG Siu Lun, Lawrence	**–**	**–**	**–**	**1,882**	**1,882**
Independent non-executive directors					
CHAN Chun Wai, Tony	**142**	**–**	**–**	**377**	**519**
FOK Hon	**142**	**–**	**–**	**377**	**519**
MA Gang	**142**	**–**	**–**	**377**	**519**
	2,566	**753**	**28**	**21,906**	**25,253**
Year ended 31 December 2011					
Executive directors					
HE Xuechu	797	–	12	–	809
LIU Wei, William	1,075	–	12	12,446	13,533
SHI Lixin	–	820	–	8,298	9,118
Non-executive directors					
YAN Weimin	–	–	–	12,446	12,446
ANG Siu Lun, Lawrence	–	–	–	6,223	6,223
Independent non-executive directors					
CHAN Chun Wai, Tony	120	–	–	1,245	1,365
FOK Hon	120	–	–	1,245	1,365
MA Gang	120	–	–	1,245	1,365
	2,232	820	24	43,148	46,224

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

(a) Directors' emoluments – Continued

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

(b) Five highest paid individuals

The five individuals whose total emoluments including share-based payment expenses were the highest in the Group for the year included four (2011: five) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining one (2011: Nil) individual during the year are as follows:

	2012 HK$'000	2011 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**778**	–
Contribution to defined contribution plans	**14**	–
Share-based payment expenses	**1,005**	–
	1,797	–

The emoluments fell within the following band:

	Number of individual	
	2012	2011
Emolument band		
HK$1,000,001 – HK$1,500,000	**1**	–

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

(b) Five highest paid individuals – Continued

The five individuals whose total emoluments excluding the equity-based payment expenses were the highest in the Group for the year included three (2011: three) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining two (2011: two) individuals during the year are as follows:

	2012 **HK$'000**	2011 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**943**	1,216
Contribution to defined contribution plans	**22**	24
	965	1,240

The emoluments fell within the following band:

	Number of individual	
	2012	2011
Emolument band		
Nil-HK$1,000,000	**2**	2

During the year, no emoluments were paid by the Group to the directors or the two (2011: two) highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2011							
Cost	8,876	924	14,181	1,750	1,120	21,318	48,169
Accumulated depreciation and impairment	(1,440)	(587)	(8,470)	(600)	(495)	–	(11,592)
Net book amount	7,436	337	5,711	1,150	625	21,318	36,577
Year ended 31 December 2011							
Opening net book amount	7,436	337	5,711	1,150	625	21,318	36,577
Additions	–	–	15	808	1,587	987	3,397
Disposals	–	–	–	(19)	(70)	–	(89)
Transfers	7,435	–	–	–	–	(7,435)	–
Disposals of subsidiaries (note 43)	–	–	–	(151)	–	–	(151)
Depreciation	(727)	(185)	(792)	(312)	(358)	–	(2,374)
Impairment loss	–	–	–	–	–	(12,036)	(12,036)
Exchange realignment	536	–	264	5	31	597	1,433
Closing net book amount	14,680	152	5,198	1,481	1,815	3,431	26,757
At 31 December 2011							
Cost	16,937	924	14,901	2,106	2,695	15,767	53,330
Accumulated depreciation and impairment	(2,257)	(772)	(9,703)	(625)	(880)	(12,336)	(26,573)
Net book amount	14,680	152	5,198	1,481	1,815	3,431	26,757
Year ended 31 December 2012							
Opening net book amount	**14,680**	**152**	**5,198**	**1,481**	**1,815**	**3,431**	**26,757**
Additions	**–**	**–**	**–**	**4**	**–**	**470**	**474**
Disposals	**–**	**–**	**–**	**(145)**	**–**	**–**	**(145)**
Depreciation	**(745)**	**(152)**	**(814)**	**(384)**	**(478)**	**–**	**(2,573)**
Impairment loss	**(13,923)**	**–**	**(4,380)**	**(629)**	**(253)**	**(3,898)**	**(23,083)**
Exchange realignment	**(12)**	**–**	**(4)**	**20**	**(3)**	**(3)**	**(2)**
Reclassified to assets of disposal group classified as held for sale (note 11(a))	**–**	**–**	**–**	**(126)**	**(83)**	**–**	**(209)**
Closing net book amount	**–**	**–**	**–**	**221**	**998**	**–**	**1,219**
At 31 December 2012							
Cost	**17,087**	**924**	**15,032**	**1,758**	**2,523**	**16,238**	**53,562**
Accumulated depreciation and impairment	**(17,087)**	**(924)**	**(15,032)**	**(1,537)**	**(1,525)**	**(16,238)**	**(52,343)**
Net book amount	**–**	**–**	**–**	**221**	**998**	**–**	**1,219**

16. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

GROUP – Continued

Note:

During the year, the Directors reviewed the carrying amount of property, plant and equipment with reference to the business operated by the Group. The Directors considered that the carrying amounts of certain property, plant and equipment exceeds its recoverable amounts in view of the outstanding technical issues and poor prospect of its silicon business segment. The recoverable amount has been determined based on the value-in-use calculation using discounted cash flow technique, covering a detailed five-year budget plan and a discount rate of 11%. As a result, impairment loss of HK$23,083,000 (2011: HK$12,036,000) has been identified and recognised in the consolidated statement of comprehensive income.

As at 31 December 2012 and 2011, building ownership certificates of the Group's leasehold buildings (which have been fully impaired during the year) have not yet been obtained. The land use rights certificates where these buildings are situated have already been obtained and have been included in the prepaid land lease payments (note 18). In the opinion of the independent PRC legal advisors of Kailun PV (Jining), Kailun PV (Jining) is entitled to obtain the building ownerships certificates without legal impediment and is entitled to lawfully and validly use the buildings during the year.

COMPANY

	Leasehold improvements HK$'000	Furniture and office equipment HK$'000	Total HK$'000
At 1 January 2011			
Cost	924	181	1,105
Accumulated depreciation	(587)	(110)	(697)
Net book amount	337	71	408
Year ended 31 December 2011			
Opening net book amount	337	71	408
Additions	–	31	31
Disposals	–	(7)	(7)
Depreciation	(185)	(38)	(223)
Closing net book amount	152	57	209
At 31 December 2011			
Cost	924	193	1,117
Accumulated depreciation	(772)	(136)	(908)
Net book amount	152	57	209
Year ended 31 December 2012			
Opening net book amount	**152**	**57**	**209**
Depreciation	**(152)**	**(57)**	**(209)**
Closing net book amount	**–**	**–**	**–**
At 31 December 2012			
Cost	**924**	**193**	**1,117**
Accumulated depreciation	**(924)**	**(193)**	**(1,117)**
Net book amount	**–**	**–**	**–**

17. EXPLORATION AND EVALUATION ASSETS

GROUP

	2012	2011
	HK$'000	HK$'000
At 1 January		
Cost	**1,879,247**	2,114,385
Accumulated impairment	**(298,247)**	–
Net book amount	**1,581,000**	2,114,385
For the year ended 31 December		
Opening net book amount	**1,581,000**	2,114,385
Impairment losses	**(171,398)**	(298,247)
Exchange realignment	**(141,099)**	(235,138)
Reclassified to assets of disposal group classified as held for sale (note 11(a))	**(1,268,503)**	–
Net book amount	**–**	1,581,000
At 31 December		
Cost	**–**	1,879,247
Accumulated impairment	**–**	(298,247)
Net book amount	**–**	1,581,000

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

Details of exploration licenses owned by Xianglan Brazil at 31 December 2012 and 2011 are as follows:

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

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset is less than its recoverable amount.

In 2011, the Directors reviewed the carrying amount of exploration and evaluation assets, impairment loss of HK$298,247,000 had been identified and recognised in the consolidated statement of comprehensive income in view of significant drop in the selling price of manganese ores for the year ended 31 December 2011.

17. EXPLORATION AND EVALUATION ASSETS – CONTINUED

GROUP – Continued

For the year ended 31 December 2012, the Directors reviewed the carrying amount of exploration and evaluation assets with reference to the consideration for the Disposal of Hill Talent (note 46(i)), impairment loss of HK$171,398,000 has been identified and recognised in the consolidated statement of comprehensive income for the year.

18. PREPAID LAND LEASE PAYMENTS

GROUP

	2012 HK$'000	2011 HK$'000
At 1 January		
Cost	23,436	22,329
Accumulated amortisation	(1,736)	(1,193)
Net book amount	21,700	21,136
For the year ended 31 December		
Opening net book amount	21,700	21,136
Amortisation	(484)	(473)
Exchange realignment	187	1,037
Net book amount	21,403	21,700
At 31 December		
Cost	23,644	23,436
Accumulated amortisation	(2,241)	(1,736)
Net book amount	21,403	21,700

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

19. INVESTMENTS IN SUBSIDIARIES

COMPANY

	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**986,896**	986,896
Less: Impairment loss recognised	**(422,099)**	(250,500)
	564,797	736,396
Classified as asset held for sale (note 11(a))		
Unlisted shares, at cost	**903,061**	–
Less: Impairment loss recognised	**(339,400)**	–
	563,661	–
Unlisted shares, at cost	**83,835**	986,896
Less: Impairment loss recognised	**(82,699)**	(250,500)
	1,136	736,396

Particulars of the principal subsidiaries at 31 December 2012 are as follows:

Name of subsidiary	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of equity interest attributable to the Company Directly	Indirectly	Principal activities
Divine Mission Holdings Limited	BVI, limited liability company	20,000 ordinary shares of US$1 each	60%	–	Investment holding
Kailun Photovoltaic Materials Investments Limited	Hong Kong, limited liability company	10,000,000 ordinary shares of HK$1 each	–	60%	Investment holding
Kailun PV (Jining)	PRC, limited liability company	Registered capital of US$10,000,000	–	60%	Production and sale of silicon products
Xianglan Brazil*	Brazil, limited liability company	5,738,140 ordinary shares of BRL 1 each	–	66%	Research and exploration of mineral resources (Manganese)
Shanghai Hongying	PRC, limited liability company	Registered capital of US$1,000,000	–	100%	Trading of copper and steel product

19. INVESTMENTS IN SUBSIDIARIES – CONTINUED

COMPANY – Continued

Name of subsidiary	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of equity interest attributable to the Company Directly	Indirectly	Principal activities
Xianglan Minerales de Mexico, S.A. de C.V.*	Mexico, limited liability company	300 shares of 1,000 Pesos each	–	62.70%	Trading of iron and manganese ores
Sinwon S.A.*	Uruguay, limited liability company	20,000 shares of 1 New Peso each	–	66%	Trading of iron and manganese ores

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

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

During the year, the Directors reviewed the carrying amount of the investments in subsidiaries, impairment loss of HK$171,599,000 (2011: HK$200,000,000) has been identified and recognised in profit or loss during the year in view of the significant impairment of exploration and evaluation assets of Xianglan Brazil (note 17) and significant operating loss on CGU of silicon business segment during the year (2011: in view of the significant impairment of goodwill and exploration and evaluation assets of Xianglan Brazil).

* The investments in Hill Talent Group have been classified as asset held for sale in the statement of financial position of the Company as at 31 December 2012, details of which are included in note 11(a) to the financial statements.

20. GOODWILL

GROUP

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

	2012 HK$'000	2011 HK$'000
At 1 January		
Gross carrying amount	**66,737**	70,596
Accumulated impairment	**(66,737)**	(35,686)
Net carrying amount	**–**	34,910
Carrying amount at 1 January	**–**	34,910
Impairment losses	**–**	(31,051)
Exchange realignment	**–**	(3,859)
Net carrying amount at 31 December	**–**	–
At 31 December		
Gross carrying amount	**66,737**	66,737
Accumulated impairment	**(66,737)**	(66,737)
Net carrying amount	**–**	–

Goodwill allocated to CGUs of silicon business segment and mineral resources exploration had been fully impaired in the previous years.

21. DEPOSITS FOR ACQUISITION OF BUSINESS

GROUP AND COMPANY

On 5 March 2010, Infinite Sky Investments Limited ("Infinite Sky"), a wholly-owned subsidiary of the Company, entered into the share purchase agreement (the "SAM Agreement") to acquire the entire issued share capital of Sul Americana de Metais S.A ("SAM") in Brazil (the "SAM Acquisition") for a total consideration of US$390 million (equivalent to approximately HK$3,023 million) (the "Total Consideration"). Further details of the Total Consideration are set out in note 40.

As at 31 December 2012 and 2011, in connection with the SAM Acquisition, the Company and Infinite Sky had deposited US$420,000 and US$10,000,000 (equivalent to HK$81,265,000 in aggregate) to the seller respectively, according to the terms of the SAM Agreement.

22. LOANS TO AN ACQUIRING BUSINESS

GROUP AND COMPANY

This represented loans advanced to SAM which are unsecured and interest-free. When the SAM Acquisition is completed and SAM becomes the subsidiary of the Company, such loans will become an inter-company balance of the Company. The loans shall be used exclusively for the purposes of conducting the mineral resources exploration work by SAM. The loans are repayable on the earlier of (i) the amount of US$115 million to become payable by the Group under the SAM Agreement; and (ii) the termination of the SAM Agreement. Further details of the loans to SAM are set out in the Company circular dated 5 November 2010.

23. INVENTORIES

GROUP

	2012 **HK$'000**	2011 HK$'000
Raw materials	**372**	7,063
Work-in-progress	**–**	4,963
Finished goods	**2,405**	5,892
	2,777	17,918

24. TRADE AND BILL RECEIVABLES

GROUP

	2012 **HK$'000**	2011 HK$'000
Trade receivables	**111,673**	1,263
Bill receivables	**149,764**	260,875
Trade and bill receivables	**261,437**	262,138

As at 31 December 2012, bill receivables of HK$149,764,000 (2011: HK$259,641,000) were pledged to the banks for trading facilities and bank borrowings, endorsed to suppliers or discounted to banks with resource. These receivables continue to be recognised as assets in the consolidated financial statements as the Group is still exposed to credit risk on these receivables as at the end of the reporting date. Accordingly, the liabilities associated with such bills, mainly borrowings and trade and bill payables as disclosed in notes 31 and 29 respectively, are not de-recognised in the consolidated financial statements.

24. TRADE AND BILL RECEIVABLES – CONTINUED

GROUP – Continued

The Group allows a credit period from 0 day to 120 days (2011: 30 days to 120 days) to its trade customers. The following is ageing analysis of net trade and bill receivables at the reporting date:

	2012 **HK$'000**	2011 HK$'000
0 – 30 days	**260,817**	1,202
91 to 180 days	**–**	260,875
Over 180 days	**620**	61
	261,437	262,138

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

	2012 **HK$'000**	2011 HK$'000
Neither past due nor impaired	**149,764**	262,077
1 – 90 days past due	**111,053**	–
Over 180 days past due	**620**	61
	111,673	61
	261,437	262,138

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

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

25. PREPAYMENTS AND OTHER RECEIVABLES

GROUP

	2012 HK$'000	2011 HK$'000
Deposits	1,285	3,462
Prepayments	325	1,625
Other receivables	454	6,800
Payments in advances	94,302	706,455
	96,366	718,342

COMPANY

	2012 HK$'000	2011 HK$'000
Deposits	913	1,913
Prepayments	–	357
	913	2,270

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

26. DERIVATIVE FINANCIAL ASSETS

GROUP AND COMPANY

	2012 HK$'000	2011 HK$'000
Embedded derivatives in convertible bonds (note 34)	6,569	11,295

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

27. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

COMPANY

These are unsecured, interest-free and repayable on demand.

28. RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

As at 31 December 2012, restricted bank deposits of HK$40,341,000 (2011: HK$37,498,000) represented guaranteed deposits placed in the banks in the PRC as securities for the Group's bill payables and banking facilities.

Restricted bank deposits and cash at bank earn interest at floating rates based on the daily bank deposit rates.

As at 31 December 2012, the Group had cash and bank balances denominated in Renminbi ("RMB") amounting to HK$42,009,000 (2011: HK$65,333,000), which were deposited with the banks in the PRC and held in hand. RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

29. TRADE AND BILL PAYABLES

GROUP

	2012 HK$'000	2011 HK$'000
Trade payables	**205,585**	63,360
Bill payables	**62,270**	138,847
	267,855	202,207

As at 31 December 2012, bill payables were secured by the Group's bill receivables of HK$30,239,000 (2011: HK$104,528,000) and the Group's restricted bank deposits of HK$32,031,000 (2011: HK$37,498,000).

The credit terms of trade payables vary according to the terms agreed with different suppliers. The following is ageing analysis of trade and bill payables at the reporting dates:

	2012 HK$'000	2011 HK$'000
0 – 30 days	**179,514**	59,135
61 – 90 days	**10,027**	445
91 – 180 days	**67,535**	139,794
Over 180 days	**10,779**	2,167
Trade payables under endorsed bills	**–**	666
	267,855	202,207

30. OTHER PAYABLES, ACCRUED EXPENSES AND RECEIPTS IN ADVANCE

GROUP

	2012 HK$'000	2011 HK$'000
Other payables	**22,018**	21,103
Accrued expenses	**1,493**	1,614
Receipts in advance from third parties	**4,940**	275,941
Receipts in advance from a related company in which Mr. Yan Weimin, a director of the Company, has controlling interests	**–**	403,259
	28,451	701,917

COMPANY

	2012 HK$'000	2011 HK$'000
Accrued expenses	**1,340**	1,340

31. BORROWINGS

GROUP

	Notes	2012 HK$'000	2011 HK$'000
Government loans – unsecured	(i)	**2,613**	2,590
Bank loans – secured	(ii)	**–**	3,700
Bank loans – secured	(iii)	**125,184**	103,281
Financial liabilities on bills discounted with recourse		**–**	48,107
Total borrowings		**127,797**	157,678

At 31 December 2012 and 2011, the Group's borrowings are all denominated in RMB and are repayable within one year or on demand.

31. BORROWINGS – CONTINUED

GROUP – Continued

Notes:

(i) Government loans comprise an interest-free loan of HK$1,369,000 (2011: HK$1,293,000) (the "Government Interest Free Loan") granted by the local government of the PRC which have agreed to waive the repayment of the Government Interest Free Loan on the conditions that the projects in the local county satisfy the requirements set by the local government. Other government loans are unsecured and interest-free.

(ii) As at 31 December 2011, this bank loan was guaranteed by濟寧市天翔機械制造有限公司. Interest was charged on the outstanding balance at a rate of 0.68% per month. The loan was fully paid during the year.

(iii) These were secured by the Group's bill receivables HK$119,525,000 (2011: HK$155,113,000) and the Group's restricted bank deposits of HK$8,310,000 (2011: Nil) and bear floating interest rate which is based on 6-month interest rate of the People's Bank of China.

As at 31 December 2012, the Group also provided guarantee of RMB3,000,000 (approximately HK$3,733,000) (2011: RMB3,000,000, equivalent to HK$3,701,000) to the bank in connection with banking facilities granted by the bank to 濟寧市天翔機械制造有限公司. No provision for the Group's obligation under the guarantee contract has been made as the Directors consider that it was not probable that the repayment of this borrowing would be in default.

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

32. LOANS FROM NON-CONTROLLING INTEREST OF A SUBSIDIARY

GROUP

As at 31 December 2012, the balance is unsecured, interest-free and repayable on demand.

As at 31 December 2011, the balance was unsecured, interest-free and repayable on 21 October 2012. The fair value of the balance was calculated using market interest rate. The residual amount, represented the difference between the fair value and the nominal value of the loan balance, was included in equity. Fair value of the balance was calculated using cash flows discounted at a rate based on the estimated discount rate of 5%. Interest is charged the effective interest method at a rate of 5% per annum.

33. LOANS FROM ULTIMATE HOLDING COMPANY

GROUP AND COMPANY

As at 31 December 2012, the balance is unsecured and is not repayable within three years from the drawdown dates. The loans are interest-free in the first two years from drawdown dates and bear interest at prime rate minus 1.25% per annum in the third year. The loans are repayable from 2013 to 2015 (2011: from 2013 to 2014). As Hong Bridge have undertaken not to demand for repayment of the loans from the Company for at least 12 months from the financial statements approval date, the loans are classified as non-current liabilities.

Fair value of the liability component was calculated using market interest rate. Difference between the fair value and the nominal value of the loans, amounting to HK$7,024,000 (2011: HK$6,267,000) is included in other reserve in equity.

Fair value of the liability component was calculated using cash flows discounted at a estimated discounted rate of 5% per annum.

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

34. CONVERTIBLE BONDS

GROUP AND COMPANY

The convertible bonds were denominated in HK$ and were issued on 24 March 2010 and are convertible into ordinary shares of the Company after two years from the date of issue of the bonds and before the maturity date on 23 March 2015. The bonds can be converted into 400,000,000 ordinary shares of the Company per HK$1 bond at par. These bonds are interest-free and are not redeemable in cash by the bond holder as the Company has the sole and absolute discretion on redemption in cash.

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

34. CONVERTIBLE BONDS – CONTINUED

GROUP AND COMPANY – Continued

The liabilities components of the convertible bonds recognised in the consolidated and company's statement of financial position are as follow:

	2012 HK$'000	2011 HK$'000
At 1 January	**226,485**	189,333
Imputed interest expenses (note 9)	**43,690**	37,152
At 31 December	**270,175**	226,485

Interest expense on the convertible bonds is calculated using effective interest method at a rate of 19.34% per annum to the liability component.

Fair value movements in the derivative financial assets embedded in the convertible bonds, the call option, for the year ended 31 December 2012 are as follows:

	2012 HK$'000	2011 HK$'000
At 1 January	**11,295**	44,354
Fair value loss recognised in profit or loss (note 8)	**(4,726)**	(33,059)
At 31 December	**6,569**	11,295

35. DEFERRED TAX

GROUP

Deferred taxation is calculated in full on temporary differences under liability method using the tax rates applicable in the tax jurisdiction concerned. The following are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting years.

	Fair value adjustments arising from exploration and evaluation assets	Fair value adjustments arising from prepaid land lease payments	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2011	718,891	693	719,584
Credit to profit or loss (note 10)	(101,404)	–	(101,404)
Exchange realignment	(79,455)	–	(79,455)
At 31 December 2011 and 1 January 2012	538,032	693	538,725
Credit to profit or loss (note 10)	(58,767)	–	(58,767)
Exchange realignment	(47,974)	–	(47,974)
Reclassified to liabilities of disposal group classified as held for sale (note 11(a))	(431,291)	–	(431,291)
At 31 December 2012	**–**	**693**	**693**

As at 31 December 2012, the Group has unused tax losses of HK$38,325,000 (2011: HK$38,333,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams and there was no taxable temporary difference related to accelerated tax depreciation as at year ended 31 December 2012. This tax loss has no expiry date.

COMPANY

No deferred tax has been provided in the financial statements of the Company as there are no material temporary differences (2011: Nil).

36. SHARE CAPITAL

	Number of shares '000	Total HK$'000
Authorised:		
Ordinary shares of HK$0.001 each at 31 December 2011 and 2012	1,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2011	6,125,920	6,126
Share capital issued under subscription agreement	77,760	78
Exercise of share option under share option scheme	2,000	2
At 31 December 2011 and 1 January 2012	6,205,680	6,206
Consideration shares issued for consultancy and technical support (note)	10,000	10
At 31 December 2012	**6,215,680**	**6,216**

Note: Pursuant to the strategic cooperation agreement in relation to the provision of technical support (the "Strategic Cooperation Agreement") by Xinwen Mining Group Co. Ltd ("Xinwen"), an aggregate of 30,000,000 ordinary shares of the Company are to be issued to Xinwen in three tranches since 2010. Each tranche represents 10,000,000 shares, being consideration for the services provided by Xinwen to the Company. The first tranche of 10,000,000 ordinary shares of the Company was issued to Xinwen in 2010. On 25 April 2012, the second tranche of 10,000,000 ordinary shares of the Company have been issued to Xinwen. The remaining 10,000,000 ordinary shares will be unconditionally issued to Xinwen pursuant to the Strategic Cooperation Agreement.

All new ordinary shares issued during the year ended 31 December 2012 have the same rights as other ordinary shares of the Company in issue.

37. SHARE OPTIONS

(a) Share Option Scheme

The Company's share option scheme was adopted pursuant to a resolution passed on 20 December 2001 and became effective on 8 January 2002 for the primary purpose of providing incentives to directors and eligible employees. This share option scheme was expired on 7 January 2012. However, the outstanding share options granted under this share option scheme continues to be exercisable under the terms of issue.

The Company's new share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 21 May 2012. The Share Option Scheme shall be effective for a period of ten years commencing on 21 May 2012. The purpose of the Share Option Scheme is to provide the Company with a flexible and effective means of incentivising, rewarding, remunerating, compensating and providing benefits to any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Company, or any of its subsidiaries.

Total number of shares in respect of which options may be granted under the Share Option Scheme does not exceed 10% of the total number of shares in issue of the Company from 21 May 2012 onwards or at the renewal of such limit. Under the Share Option Scheme, the Company may obtain a fresh approval from its shareholders to refresh the above mentioned 10% limit.

Exercise price of the share options shall be determined by the Directors at its absolute discretion and notified to a participant and shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the offer date; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of the shares of the Company on the offer date.

(b) Option Deed

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

At 31 December 2012, an aggregate of 438,000,000 (2011: 437,240,000) shares of the Company were issuable pursuant to share options granted under the Share Option Scheme and the Option Deed, representing 7% (2011: 7%) of the shares of the Company in issue at that date.

As at 31 December 2012, total number of shares available for issue pursuant to the grant of further options under the Share Option Scheme was 600,567,971 (2011: 612,591,971), representing 9.7% (2011: 10%) of the issued share capital of the Company as at 31 December 2012.

At the date of this annual report, the Company had 438,000,000 (2011: 437,000,000) share options outstanding under the Share Option Scheme and the Option Deed, which represented 7.0% (2011: 7.0%) of shares of the Company in issue at that date. The consideration payable on the grant of an option is HK$1 for each grant transaction. Options may be exercised at any time within the exercisable period.

37. SHARE OPTIONS – CONTINUED

The following tables set out the movement in share options:

Year ended 31 December 2012:

Name or category of participant	Share option type	Outstanding at 1 January 2012	Granted during the year	Lapsed during the year	Outstanding at 31 December 2012
		Number of share options			
(a) Share Option Scheme					
Share option for directors and employees					
Directors					
Executive directors					
LIU Wei, William	2007	10,000,000	–	(10,000,000)	–
	2010	30,000,000	–	–	30,000,000
	2012	–	10,000,000	–	10,000,000
SHI Lixin	2007	10,000,000	–	(10,000,000)	–
	2010	20,000,000	–	–	20,000,000
	2012	–	10,000,000	–	10,000,000
Non-executive directors					
Mr. Yan Wei Min	2010	30,000,000	–	–	30,000,000
Mr. Ang Siu Lun, Lawrence	2010	15,000,000	–	–	15,000,000
Independent non-executive directors					
Mr. Chan Chun Wai, Tony	2010	3,000,000	–	–	3,000,000
Mr. Fok Hon	2010	3,000,000	–	–	3,000,000
Mr. Ma Gang	2010	3,000,000	–	–	3,000,000
Sub-total		124,000,000	20,000,000	(20,000,000)	124,000,000
Employees					
In aggregate	2010	13,000,000	–	–	13,000,000
In aggregate	2012	–	1,000,000	–	1,000,000
Others					
In aggregate	2002	240,000	–	(240,000)	–
Sub-total		13,240,000	1,000,000	(240,000)	14,000,000
Total – Share Option Scheme		137,240,000	21,000,000	(20,240,000)	138,000,000
(b) Option Deed					
Share option for the strategic cooperative partner					
Xinwen	2010	300,000,000	–	–	300,000,000
Total – Option Deed		300,000,000	–	–	300,000,000

37. SHARE OPTIONS – CONTINUED

Year ended 31 December 2011:

Name or category of participant	Share option type	Number of share options: Outstanding at 1 January 2011	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2011
(a) Share Option Scheme					
Share option for directors and employees					
Directors					
Executive directors					
LIU Wei, William	2007	10,000,000	–	–	10,000,000
	2010	30,000,000	–	–	30,000,000
SHI Lixin	2007	10,000,000	–	–	10,000,000
	2010	20,000,000	–	–	20,000,000
Non-executive directors					
Mr. Yan Wei Min	2010	30,000,000	–	–	30,000,000
Mr. Ang Siu Lun, Lawrence	2010	15,000,000	–	–	15,000,000
Independent non-executive directors					
Mr. Chan Chun Wai, Tony	2010	3,000,000	–	–	3,000,000
Mr. Fok Hon	2010	3,000,000	–	–	3,000,000
Mr. Ma Gang	2010	3,000,000	–	–	3,000,000
Sub-total		124,000,000	–	–	124,000,000
Employees					
In aggregate	2010	21,000,000	(2,000,000)	(6,000,000)	13,000,000
Others					
In aggregate	2002	240,000	–	–	240,000
Sub-total		21,240,000	(2,000,000)	(6,000,000)	13,240,000
Total – Share Option Scheme		145,240,000	(2,000,000)	(6,000,000)	137,240,000
(b) Option Deed					
Share option for the strategic cooperative partner					
Xinwen	2010	300,000,000	–	–	300,000,000
Total – Option Deed		300,000,000	–	–	300,000,000

37. SHARE OPTIONS – CONTINUED

Details of the share options are as follows:

Share option type		Date of grant	Exercisable period	Exercise price
(a)	Share Option Scheme			
	2002 (note i)	15 April 2002	15 April 2003 to 7 January 2012	HK$0.69
	2007 (note ii & iii)	22 November 2007	22 May 2008 to 21 November 2012	HK$1.20
	2010 (a) (note iv & v)	6 May 2010	6 May 2011 to 5 May 2018	HK$2.60
	2010 (b) (note iv & v)	6 May 2010	6 May 2012 to 5 May 2018	HK$2.60
	2012 (note vi)	28 May 2012	28 May 2012 to 27 May 2020	HK$0.95
(b)	Option Deed			
	2010 (c) (note vii)	25 November 2010	25 November 2010 to 24 November 2013	HK$3.15

Notes:

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

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

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

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

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

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

37. SHARE OPTIONS – CONTINUED

Notes: – Continued

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

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

(vi) On 28 May 2012, the board of directors proposed to grant 21,000,000 share options to the Company's directors and employees at exercise price of HK$0.95 per share. The grant of share options was approved by the independent non-executive directors on 28 May 2012. These share options are vested at the date of grant. The share options shall be valid and exercisable for 8 years with effective from the date of grant of share option on 28 May 2012. Consideration of HK$4 in respect of these granted share options was received.

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

(viii) During the year, no share option was exercised. During the year ended 31 December 2011, the share options exercised resulted in an equal number of issued ordinary shares (note 36).

(ix) The fair values of options granted under the relevant Share Option Scheme on 15 April 2002, 22 November 2007, Lot A and Lot B on 6 May 2010, 28 May 2012, and the option granted to Xinwen on 25 November 2010, measured at the date of grant, were approximately HK$5,024,000, HK$3,455,000, HK$23,124,000, HK$93,637,000, HK$9,290,000 and HK$212,813,000 respectively. The following significant assumptions were used to derive the fair values, using the Black-Scholes option pricing model:

Date of grant	14 April 2002	22 November 2007	6 May 2010 Lot A	6 May 2010 Lot B	25 November 2010	28 May 2012
Expected volatility	29%	20%	69%	74%	68%	61%
Expected life (in years)	9.7	2.5	2.0	3.0	1.0	8.0
Risk-free interest rate	5%	2%	1%	1%	1%	1%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil

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

(x) For the year ended 31 December 2012, share-based payment expenses of HK$23,980,000 (2011: HK$51,861,000) have been included in the consolidated statement of comprehensive income, with a corresponding credit in share-based payment reserve. The amount recorded in share-based payment reserve represented the fair value of share options expense vested during the year. No liabilities were recognised due to share-based payment transactions.

37. SHARE OPTIONS – CONTINUED

Notes: – Continued

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

	2012		2011	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	437,240,000	2.91	445,240,000	2.91
Granted	21,000,000	0.95	–	–
Exercised	–	–	(2,000,000)	2.60
Lapsed	(20,240,000)	1.19	–	–
Forfeited	–	–	(6,000,000)	2.60
Outstanding at 31 December	438,000,000	2.90	437,240,000	2.91

The share options outstanding at 31 December 2012 had exercise price of HK$0.95, HK$2.60 or HK$3.15 (2011: HK$0.69, HK$1.20, HK$2.60 or HK$3.15) and a weighted average remaining contractual life of 2.4 years (2011: 3.0 years).

(xii) 20,240,000 share options have been lapsed due to the expiry of these share options during the year (2011: Nil).

38. RESERVES

Other reserve of the Company and of the Group represented to recognise the difference between the fair value and the nominal value of the loans from ultimate holding company and loan from non-controlling interest of a subsidiary on initial recognition.

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

GROUP

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 37 of the consolidated financial statements.

38. RESERVES – CONTINUED

COMPANY

	Share premium HK$'000	Other reserve HK$'000	Share-based payment reserve HK$'000	Convertible bond equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	527,734	31,628	317,772	363,304	(509,559)	730,879
Issue of shares	116,660	–	–	–	–	116,660
Shares issued under share option scheme	6,647	–	(1,449)	–	–	5,198
Arising from loans from ultimate holding company	–	6,267	–	–	–	6,267
Equity-settled share-based transactions	–	–	51,861	–	–	51,861
Forfeiture of share options	–	–	(3,142)	–	3,142	–
Transactions with owners	123,307	6,267	47,270	–	3,142	179,986
Loss for the year and total comprehensive income for the year	–	–	–	–	(346,094)	(346,094)
At 31 December 2011 and 1 January 2012	**651,041**	**37,895**	**365,042**	**363,304**	**(852,511)**	**564,771**
Issue of shares	**28,290**	**–**	**(28,300)**	**–**	**–**	**(10)**
Arising from loans from ultimate holding company	**–**	**7,024**	**–**	**–**	**–**	**7,024**
Equity-settled share-based transactions	**–**	**–**	**23,980**	**–**	**–**	**23,980**
Lapse of share options	**–**	**–**	**(3,341)**	**–**	**3,341**	**–**
Transactions with owners	**28,290**	**7,024**	**(7,661)**	**–**	**3,341**	**30,994**
Loss for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**(280,480)**	**(280,480)**
At 31 December 2012	**679,331**	**44,919**	**357,381**	**363,304**	**(1,129,650)**	**315,285**

39. OPERATING LEASE COMMITMENTS

GROUP

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

	2012 HK$'000	2011 HK$'000
Within one year	**2,081**	3,281
In the second to fifth year inclusive	**–**	1,166
	2,081	4,447

The Group leases a number of rented premises under operating leases. The leases run for an initial period of one to two years (2011: two years). None of the leases include contingent rentals.

COMPANY

The Company did not have any significant operating lease commitments as at 31 December 2012 and 2011.

40. CAPITAL COMMITMENTS

GROUP

	2012 HK$'000	2011 HK$'000
Contracted but not provided for		
Property, plant and equipment	**1,884**	1,867
Proposed acquisition of business*	**2,945,228**	2,956,818
	2,947,112	2,958,685

COMPANY

	2012 HK$'000	2011 HK$'000
Contracted but not provided for		
Proposed acquisition of business*	**2,945,228**	2,956,818

40. CAPITAL COMMITMENTS – CONTINUED

* Pursuant to the SAM Agreement (note 21), the Group is committed to pay the Total Consideration in five stages. A total of US$75 million (being US$10 million (stage 1) plus US$65 million (stage 2)) is payable to the sellers on the date of completion of the SAM Acquisition, subject to the fulfillment of several conditions as stated in the SAM Agreement. The remaining consideration payable at stage 3 depends on the date when the approvals and permits in relation to the commencement of construction of the mine, plant, pipeline and the relevant specified port facilities as detailed in the SAM Agreement are obtained. According to the SAM Agreement, the minimum consideration for stage 3 will be US$111.25 million and the contingent consideration will be US$3.75 million. Pursuant to the SAM Agreement, the principal amounts of the contingent consideration paid at stage 4 and 5 are US$100 million and US$100 million respectively, depending on the relevant specified port operation commencement date and the mining production commencement date. As at 31 December 2012, the Group and the Company paid US$10 million (equivalent to approximately HK$78,000,000 (note 21)) for stage 1 and further paid US$420,000 (equivalent to approximately HK$3,265,000 (note 21)) as additional payment, the aggregate principal amount of outstanding considerations for stage 2 to 5 of US$380 million (equivalent to approximately HK$2,945 million (2011: HK$ HK$2,957 million)) are disclosed as capital commitment. Details of the SAM Agreement and the Total Consideration are set out in the Company's circular dated 5 November 2010.

The Group entered into various co-operation agreements, memorandum of understanding and framework agreement for funding and co-operation in the SAM Acquisition. The Group is also under active negotiation with various third parties for financing activities.

Hong Bridge, the ultimate holding company of the Company, and its two shareholders, namely Mr. He Xuechu and Mr. Li Xingxing undertake that they will render adequate financial support to the Group for completing the acquisition of SAM.

41. RETIREMENT BENEFITS SCHEME

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

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

For members of the MPF Scheme, the Group contributes 5% of the relevant payroll costs to the MPF Scheme, which contribution is matched by the employee. Both the employer's and employees' contribution are subject to a maximum of monthly earnings of HK$20,000 per employee. The maximum level of monthly earnings has been increased to HK$25,000 effective on 1 June 2012.

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

41. RETIREMENT BENEFITS SCHEME – CONTINUED

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. There was no forfeited contributions utilised during the year (2011: Nil). There was no significant amount of forfeited contributions available to reduce future contribution payable by the Group as at 31 December 2012 and 2011.

Employees located in the PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contribution schemes. The calculation of contributions for the PRC eligible staff is based on certain percentage of the applicable payroll costs.

42. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, during the year, the Group made sales of copper and steel products in the aggregate amount of HK$403,849,000 (2011: HK$418,898,000) to a related company in which Mr. Yan Weimin, a non-executive director of the Company, is the controlling shareholder. The terms are based on the non-exclusive steel product distribution agreement signed with the related company or mutually agreed. These sales were presented in gross amounts as "sale of copper and steel products" or in net amounts as "revenue from on trading commodity contracts" in note 5, depending on the nature of the transactions.

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Disposal of subsidiaries

As referred to in note 11(b), on 31 January 2011, the Group disposed of its entire share capital of the Great Ready Group. Net assets of the Great Ready Group at the date of disposal were as follows:

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	151
Trade receivables	3,892
Prepayments, deposits and other receivables	1,180
Cash and cash equivalents	556
Trade payables	(4,957)
Other payables and accruals	(4,390)
	(3,568)
Release of reserve upon disposal of subsidiaries	327
Gain on disposal of subsidiaries	4,241
Consideration satisfied by cash	1,000

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

Disposal of subsidiaries – Continued

An analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries was as follows:

	HK$'000
Cash consideration received	1,000
Cash and cash equivalents disposed of	(556)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	444

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

44.1 Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities (excluding assets and liabilities of disposal group classified as held for sale).

(i) Financial assets

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets at fair value through profit or loss:				
Derivative financial assets	**6,569**	11,295	**6,569**	11,295
	6,569	11,295	**6,569**	11,295
Loans and receivables:				
Non-current assets				
Deposits for acquisition of business	**81,265**	81,265	**3,265**	3,265
Loans to an acquiring business	**262,434**	219,808	**262,434**	219,808
	343,699	301,073	**265,699**	223,073
Current assets				
Trade and bill receivables	**261,437**	262,138	**–**	–
Other receivables	**454**	6,800	**–**	–
Amount due from subsidiaries	**–**	–	**86,180**	86,180
Cash and bank balances	**42,701**	73,336	**130**	2,847
	304,592	342,274	**86,310**	89,027
	654,860	654,642	**358,578**	323,395

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

44.1 Categories of financial assets and liabilities – Continued

(ii) Financial liabilities

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities at amortised cost:				
Current liabilities				
Trade and bill payables	**267,855**	202,207	**–**	–
Other payables and accrued expenses	**23,511**	22,717	**1,340**	1,340
Amounts due to subsidiaries	**–**	–	**1,078**	1,078
Borrowings	**127,797**	157,678	**–**	–
Loans from non-controlling interest of a subsidiary	**6,800**	6,541	**–**	–
	425,963	389,143	**2,418**	2,418
Non-current liabilities				
Loans from ultimate holding company	**330,194**	262,390	**330,194**	262,390
Convertible bonds	**270,175**	226,485	**270,175**	226,485
	600,369	488,875	**600,369**	488,875
	1,026,332	878,018	**602,787**	491,293

44.2 Fair value and fair value hierarchy

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

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

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

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

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

44.2 Fair value and fair value hierarchy – Continued

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

(i) ***Assets measured at fair value***

Group and Company

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2012				
Derivative financial assets	**–**	**6,569**	**–**	**6,569**
As at 31 December 2011				
Derivative financial assets	–	11,295	–	11,295

(ii) ***Liabilities measured at fair value***

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2012 and 2011.

44.3 Foreign currency risk

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

44.4 Interest rate risk

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

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

The sensitivity analysis demonstrates the Group's exposure to a reasonable possible change in interest rates on its floating rate borrowings with all other variable held constant at the reporting date (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material). Had the interest rates been increased/decreased by 100 (2011: 100) basis points at the beginning of the year, the Group loss for the year and accumulated losses would increase/decrease by approximately HK$1,252,000 (2011: HK$977,000).

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

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

44.4 Interest rate risk – Continued

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

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

44.5 Credit risk

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

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

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

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

44.6 Liquidity risk

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

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

As detailed in note 3.1, these financial statements have been prepared on the assumption that the Group and the Company will continue as a going concern. On the basis that (1) Hong Bridge and its two shareholders provide financial support to the Group and (2) the Group entered into agreements to dispose of the Hill Talent Group on 4 January 2013 (subject to the shareholders' approval at extraordinary meeting) and to issue convertible bonds on 5 March 2013 in order to improve the financial position of the Group, the Directors are satisfied that both the Group and the Company will be able to meet in full their financial obligations as they fall due in the foreseeable future without significant curtailment of operations. Accordingly, the financial statements have been prepared on a going concern basis.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

44.6 Liquidity risk – Continued

As at 31 December 2012 and 2011, the Group's financial liabilities (excluding assets and liabilities of disposal group classified as held for sale) have contractual maturities which are summarised below:

GROUP

	Within 1 month or on demand HK$'000	1 to 3 months HK$'000	4 to 12 months HK$'000	Over 1 year HK$'000	Total undiscounted amount HK$'000	Total carrying amount HK$'000
At 31 December 2012						
Trade and bill payables	**205,585**	**–**	**62,270**	**–**	**267,855**	**267,855**
Other payables and accrued expenses	**23,511**	**–**	**–**	**–**	**23,511**	**23,511**
Borrowings	**2,613**	**126,274**	**–**	**–**	**128,887**	**127,797**
Loans from ultimate holding company	**–**	**–**	**–**	**351,717**	**351,717**	**330,194**
Loans from non-controlling interest of a subsidiary	**6,800**	**–**	**–**	**–**	**6,800**	**6,800**
Convertible bonds	**–**	**–**	**–**	**400,000**	**400,000**	**270,175**
	238,509	**126,274**	**62,270**	**751,717**	**1,178,770**	**1,026,332**
Financial guaranteed issued:						
Maximum amount guaranteed	**–**	**–**	**–**	**3,733**	**3,733**	**3,733**
At 31 December 2011						
Trade and bill payables	63,360	–	138,847	–	202,207	202,207
Other payables and accrued expenses	22,717	–	–	–	22,717	22,717
Borrowings	2,590	5,551	149,537	–	157,678	157,678
Loans from ultimate holding company	–	–	–	275,200	275,200	262,390
Loans from non-controlling interest of a subsidiary	–	–	6,800	–	6,800	6,541
Convertible bonds	–	–	–	400,000	400,000	226,485
	88,667	5,551	295,184	675,200	1,064,602	878,018
Financial guaranteed issued:						
Maximum amount guaranteed	–	–	–	3,701	3,701	3,701

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

44.6 Liquidity risk – Continued

COMPANY

	Within 1 month or on demand HK$'000	1 to 3 months HK$'000	4 to 12 months HK$'000	Over 1 year HK$'000	Total undiscounted amount HK$'000	Total carrying amount HK$'000
At 31 December 2012						
Other payables and accrued expenses	**1,340**	**–**	**–**	**–**	**1,340**	**1,340**
Amounts due to subsidiaries	**1,078**	**–**	**–**	**–**	**1,078**	**1,078**
Loans from ultimate holding company	**–**	**–**	**–**	**351,717**	**351,717**	**330,194**
Convertible bonds	**–**	**–**	**–**	**400,000**	**400,000**	**270,175**
	2,418	**–**	**–**	**751,717**	**754,135**	**602,787**
At 31 December 2011						
Other payables and accrued expenses	1,340	–	–	–	1,340	1,340
Amounts due to subsidiaries	1,078	–	–	–	1,078	1,078
Loans from ultimate holding company	–	–	–	275,200	275,200	262,390
Convertible bonds	–	–	–	400,000	400,000	226,485
	2,418	–	–	675,200	677,618	491,293

45. CAPITAL MANAGEMENT

The Group's objectives when managing capital include:

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

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

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

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

45. CAPITAL MANAGEMENT – CONTINUED

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

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

	2012 HK$'000	2011 HK$'000
Capital		
Total equity	**583,927**	917,616
Loans from ultimate holding company	**(44,919)**	(37,895)
Loans from non-controlling interest of a subsidiary	**(556)**	(556)
Convertible bonds – equity components	**(363,304)**	(363,304)
	175,148	515,861
Overall financing		
Borrowings	**127,797**	157,678
Loans from ultimate holding company	**375,113**	300,285
Loans from non-controlling interest of a subsidiary	**7,356**	7,097
Convertible bonds – equity and liability components	**633,479**	589,789
	1,143,745	1,054,849
Capital-to-overall financing ratio	**0.15 times**	0.49 times

46. EVENTS SUBSEQUENT TO THE REPORTING DATE

In addition to those disclosed elsewhere in the financial statements, the Group had the following material events after 31 December 2012:

(i) On 4 January 2013, the Company entered into the Conditional Disposal Agreement with Brilliant People to sell the entire issued share capital of Hill Talent, a wholly-owned subsidiary of the Company, for a total consideration of HK$715 million. Hill Talent beneficially owns as to 66% of the issued shares of Xianglan Brazil. Xianglan Brazil directly holds three exploration licenses (note 17), 95% of the issued share capital of Xianglan Minerales de Mexico, S.A. de C.V. and the entire issued share capital of Sinwon S.A. On 1 February 2013, the Company entered into a supplementary agreement in connected with the Disposal with Brilliant People. Pursuant to the supplementary agreement, Brilliant People pays the Disposal Consideration as follows: HK$111,150,000 is payable in cash to the Company on the date of the supplementary agreement. The remaining balances are payable at the completion of the Disposal. HK$400,000,000 is payable by the return of the Company's convertible bonds, which can be converted into 400,000,000 ordinary share of the Company per HK$1 bond at par, to the Company. HK$203,850,000 is payable by promissory notes (the "Promissory Notes"), which is payable within three years from the date of issue of the Promissory Notes and pledged with the 226,500,000 shares of the Company held by Brilliant People. In February 2013, proceeds of HK$111,150,000 were received in cash. Further details of the Disposal are disclosed in the Company's announcement on 1 February 2013. The Disposal is subject to the shareholders' approval.

(ii) On 7 February 2013, Infinite Sky entered into a supplementary agreement in connection with the SAM Acquisition to the sellers (the "Supplementary SAM Agreement"). Pursuant to the Supplementary SAM Agreement, the contingent consideration paid at stage 4 and 5 is reduced from US$100 million and US$100 million respectively to US$40 million and US$40 million respectively, if US$115 million is paid at a date that is on or before six-month anniversary of the date of completion of SAM Acquisition. Further details of the Supplementary SAM Agreement are disclosed in the Company's announcement on 7 February 2013.

(iii) On 5 March 2013, the Company entered into the subscription agreement pursuant to which the Company has conditionally agreed to issue the convertible bonds in the principal amount of HK$740,000,000 to the subscriber. Further details of the issue of the convertible bonds are disclosed in the Company's announcement on 5 March 2013.

47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2012 were approved for issue by the Board of Directors on 27 March 2013.

FINANCIAL SUMMARY

FINANCIAL RESULTS

	Year ended 31 December				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012 HK$'000**
CONTINUING OPERATIONS					
Turnover	29,626	10,079	49,785	1,756,598	**415,306**
Direct operating expenses	(26,170)	(7,631)	(50,399)	(1,740,781)	**(412,442)**
Other operating revenue	389	164	4,321	9,678	**8,190**
Selling and distribution costs	(240)	(187)	(663)	(851)	**(1,180)**
Administrative expenses	(10,090)	(12,489)	(23,752)	(32,036)	**(27,284)**
Other operating expenses, net	(10,923)	(3,031)	(44,885)	(50,029)	**(55,069)**
Share-based payment expenses	–	–	(349,883)	(51,861)	**(23,980)**
Impairment of exploration and evaluation assets			–	(298,247)	**(171,398)**
Impairment of goodwill	–	(35,686)	–	(31,051)	**–**
Operating losses	(17,408)	(48,781)	(415,476)	(438,580)	**(267,857)**
Finance costs	(2,575)	(3,918)	(32,397)	(52,373)	**(61,200)**
Losses before income tax	(19,983)	(52,699)	(447,873)	(490,953)	**(329,057)**
Income tax credit	–	–	–	101,404	**58,767**
Losses for the year from continuing operations	(19,983)	(52,699)	(447,873)	(389,549)	**(270,290)**
DISCONTINUED OPERATIONS					
Profit/(Loss) for the year from discontinued operations	39	(1,021)	(1,640)	3,001	**–**
Losses for the year	(19,944)	(53,720)	(449,513)	(386,548)	**(270,290)**
Attributable to:					
Owners of the Company	(15,729)	(50,136)	(445,650)	(304,839)	**(221,699)**
Non-controlling interests	(4,215)	(3,584)	(3,863)	(81,709)	**(48,591)**
Losses for the year	(19,944)	(53,720)	(449,513)	(386,548)	**(270,290)**

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012 HK$'000**
Total assets	137,706	94,204	2,529,270	3,013,559	**2,047,332**
Total liabilities	(106,894)	(101,075)	(1,246,926)	(2,095,943)	**(1,463,405)**
Non-controlling interests	(19,686)	(16,470)	(495,588)	(360,419)	**(279,188)**
Equity attributable to owners of the Company	11,126	(23,341)	786,756	557,197	**304,739**