森源鈦礦控股有限公司

XIAN YUEN TITANIUM RESOURCES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(formerly known as "Aurora Global Investment Holdings Limited" 旭日環球投資控股有限公司)*

(Stock code: 353)

The real measure of

Annual Report 2007

** For identification purpose only*

Contents

Corporate Information

REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 5303-04
53rd Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

BOARD OF DIRECTORS

Executive Directors

Mr. Tam Owen *(Chairman)*
Dr. Yuen Clement Ming Kai *(Vice-Chairman)*
Mr. Law Fei Shing *(Chief Executive Officer)*
Mr. So Chi Keung
Mr. Fok Po Tin
Mr. Leung Kai Hung
Mr. Yeung Delon

Non-Executive Director

Mr. Lam Shing Tsun, Edmond

Independent Non-Executive Directors

Mr. Lum Pak Sum
Mr. Wan Hon Keung
Mr. Sun Tak Keung

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. Law Fei Shing, AICPA, HKICPA (Practising)

AUTHORISED REPRESENTATIVES

Mr. Tam Owen
Mr. Law Fei Shing

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited
Citic Ka Wah Bank

LEGAL ADVISERS

Stevenson, Wong & Co.
4th & 5th Floor, Central Tower
No. 28 Queen's Road
Central, Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL SHARE REGISTRAR

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
36C Bermuda House
British American Centre
George Town
Grand Cayman
Cayman Islands

AUDITORS

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

Chairman's Statement

On behalf of the board of directors (the "Board") of Xian Yuen Titanium Resources Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present herewith the annual report of the Company and the Group for the year ended 31 December 2007.

BUSINESS REVIEW

During the year, carpet manufacturing and trading were the core business of the Group. However, while the turnover of the core business was substantially increased, the Group suffered a loss of HK$37.8 million in manufacturing and trading of carpet segments which include the deficits on revaluation of property, plant and equipment of HK$27 million. The loss of HK$10.8 million, excluding the deficits on revaluation of property, plant and equipment, was mainly due to the low profit margin of our goods as we faced very keen pricing competition in Hong Kong, PRC and overseas.

The Directors therefore considered that the disposal of part of the carpet manufacturing and trading business would allow the Group to focus on and to spare additional resources to fund its investment in the mining business. For further details, please refer to the Company's circular dated 21 April 2008.

On 16 January 2008, the Company has entered into a non-binding memorandum of understanding with an independent third party to dispose of Orient Carpet Manufacturing (HK) Limited and Hui Zhou Orient Carpet Manufacturing Company Limited. Please refer to the announcement of the Company dated 16 January 2008 for further information.

On 10 March 2008, the Company has entered into a share sale agreement with an independent third party to dispose of International Carpet Company Limited for a total consideration of HK$200,000. For details, please refer to the circular of the Company dated 21 April 2008.

On 8 April 2008, Smooth Way International Limited ("Smooth Way") (a wholly-owned subsidiary of the Company) as a purchaser entered into an agreement with Ms. Leung Lai Ching, Margaret ("Ms. Leung"), a substantial shareholder of the Company, pursuant to which Smooth Way conditionally agreed to acquire from Ms. Leung the 49% equity interests in Kanson Development Limited ("Kanson") for a total consideration of HK$960.78 million to be paid to Ms. Leung by the issue of the convertible bonds. Please refer to the Company's announcement dated 18 April 2008 for further details.

LOGISTICS AND FINANCIAL BUSINESS

In July 2007, the Group, through its wholly-owned subsidiary, Aurora Logistic Capital Assurance Limited, acquired 51% interests of Hebei Da Sheng Warranty Company Limited ("Da Sheng"). The principal business of Da Sheng is to support PRC enterprises by acting as the guarantor of the enterprise, and by providing guarantees to financial institutions to secure credit facilities to the enterprise, thereby allowing the enterprise to obtain additional credit limit. The business of Da Sheng has not yet been commenced and it is anticipated that further time and capital is required for developing the logistics and financial business of Da Sheng. During the year, Aurora Logistic Finance Group Inc. and its subsidiaries including Da Sheng recorded a loss of HK$5.1 million. The Directors considered that the disposal of partial interest in Da Sheng would allow the Company to focus on and to spare additional resources to fund its investments in the mining business. For further details, please refer to the Company's circular dated 21 April 2008.

Chairman's Statement

TRADING OF GOODS

In March 2007, the Group acquired 70% interest of Win Alliance Development Limited ("Win Alliance") which enables the Group to expand its source of income from the trading of seamless steel and other goods. For the year ended 31 December 2007, the turnover of this segment of our business was HK$15 million (2006: Nil) and the loss of this segment is HK$813,000 (2006: Nil). The Group will endeavour to improve the gross profit of trading and further explore the customer base to contribute a profit in the future.

XIAOHONGSHAN (LITTLE RED MOUNTAIN) MINERAL PROPERTY

In November 2007, the Group acquired 51% equity interests of Kanson from Ms. Leung Lai Ching, Margaret, through Smooth Way International Limited, a wholly-owned subsidiary of the Company. Qinghai Forest Source Mining Industry Developing Company Limited (Kanson's wholly-owned subsidiary), a wholly foreign owned enterprise established in the PRC, holds an exploration license of a mineral property in 2km by 1km rectangular area of Little Red Mountain located in Inner Mongolia (the "Mine").

Current status/latest development of the Mine held by Kanson

The relevant key metallurgical tests on the samples from the Mine have been completed by the Changsha Research Institute of Mining and Metallurgy, the Changsha Central South University and the Sichuan University that are all leading testing facilities and institutes in the PRC with specialized expertise in the beneficiation processes of iron, titanium and phosphate products from ore rock. The test results have been reviewed by an external panel of PRC experts in the relevant fields and were considered to be appropriate and sufficient for use in the feasibility studies of the project.

An additional diamond drilling program has been carried out at the Mine and the relevant geological report is being compiled. The feasibility study report which is required for the application of the mining license for the Mine is under preparation. Support letters for the provision of water, power and land for the mining development at the Little Red Mountain mine site (Inner Mongolia) and at the processing plant site at Yumen (Gansu) have been provided by the local government. Temporary site offices have been set up at the Little Red Mountain mine site.

FUTURE PLAN AND PROSPECTS

The Board is encouraged by the continuing increase in the global demands for iron and titanium products. According to a summary report on the International Titanium Association (ITA) 23rd Annual Meeting and Conference, the overall demand for the use of titanium in all segments of the industry is expected to grow from 80,000 tonnes in 2006 to 107,000 tonnes in 2010, increasing by 34%. Strong global demands for iron ore come from Asia, particularly China. This has resulted in a significant world-wide price increase of iron ore. According to the information obtained from Chinaccm.com, in 2007, China has imported around 0.38 billion tonnes of iron ore which amounted to about 50% of its annual demand. Also, the Chinese government has continued to encourage the development of iron ore mines and the beneficiation of iron and associated products, resulting in a steady upward trend in the pricing of iron and titanium products in the domestic market in the PRC. Therefore, the Board is optimistic about the Company's mining business.

Chairman's Statement

We will dedicate more resources to the exploration and development of the Mine at Little Red Mountain, such as registration of the mineral resources, delineation of the approved mining area, project feasibility study and application of the mining license. It is anticipated that the above work will be completed within the third quarter of 2008. Upon acquisition of the mining license, detailed design and development work could commence. Apart from the future business plan as discussed above, the Company will continue to put efforts on the aspects of operational improvement and cost-effectiveness enhancement in order to achieve higher returns to shareholders.

CHANGE OF NAME

Pursuant to the approval of shareholders at an extraordinary general meeting held on 1 February 2008, the name of the Company has been changed from "Aurora Global Investment Holdings Limited" to "Xian Yuen Titanium Resources Holdings Limited" and the Company has adopted a new Chinese name "森源鈦礦控股有限公司" to replace "旭日環球投資控股有限公司" for identification purposes only.

APPRECIATION

On behalf of the Board, I would take this opportunity to express my sincere thanks to all shareholders for their continuing support, and all the Directors and staff of the Group for their loyalty, commitment and diligence in the past year.

By order of the Board

Tam Owen
Chairman

Hong Kong, 25 April 2008

Management Discussion and Analysis

FINANCIAL SUMMARY

The Group's turnover for the year ended 31 December 2007 was approximately HK$55.6 million, which represented an increase of 110% compared to the previous year. The administrative expenses for the year ended 31 December 2007 were approximately HK$50 million, which represented an increase of 29% compared to the expenses incurred last year.

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2007 was increased to approximately HK$79 million, as compared to HK$46 million in the previous corresponding year.

As a significant portion of the Group's sales and purchases were denominated in Hong Kong dollars and Renminbi, the directors considered the Group has no significant exposure to foreign exchange fluctuations in view of the stability of the exchange rates of Hong Kong dollars and Renminbi. During the year under review, the Group did not use any hedging instrument.

CURRENT AND GEARING RATIO

As at 31 December 2007, the Group has total assets of approximately HK$870 million (2006: HK$101 million), total liabilities of HK$246 million (2006: HK$38 million), indicating a gearing ratio 0.28 (2006: 0.37) on the basis of total liabilities over total assets. The current ratio of the Group for the year was 2.47 (2006: 0.49).

CHARGES ON ASSETS

As at 31 December 2007, the Group had no interest-bearing bank borrowings and assets was pledged. (2006: Nil).

CONTINGENT LIABILITIES

As at 31 December 2007, the Group did not have any significant contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2007, the Group employed approximately 191 full-time employees (2006: 139), mostly at the Group's subsidiary factories for manufacturing carpets. The Group's emolument policies are formulated on the performance of individual employees and are reviewed annually in line with industry practice. The Group also provides provident fund schemes (as the case may be) to its employees depending on the location of such employees.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2007 (2006: Nil).

Biographical Details in respect of Directors and Senior Management Staff

EXECUTIVE DIRECTORS

Mr. Tam Owen, aged 50, has been appointed as Executive Director and Chairman since June 2007 and July 2007 respectively. He holds a Bachelor's degree in Science from the University of Oregon in U.S.A. He is currently a director in a various financing, investment and security companies. Mr. Tam has over 15 years extensive experience in wealth, asset management and customer service in the financial services industry and possess in depth trade knowledge of all major financial products in Hong Kong and overseas major markets.

Dr. Yuen Clement Ming Kai, aged 61, has been appointed as Vice Chairman and Executive Director since November 2007. He holds the Master and Ph.D. degrees both in Geotechnical Engineering from the University of Western Ontario in Canada. He is a member of professional engineer institutions in Hong Kong, U.K. and Canada. Dr. Yuen has over 30 years of experience in geotechnical engineering consulting, infrastructure investment and operation as well as mining projects management. His wide exposure was gained from having worked for international corporations of prime names such as Cheung Kong Infrastructure Holdings Limited and Golder Associates Limited in Hong Kong and Canada. Main responsibilities while with his former employers include directing infrastructure projects (tolled bridges and highways, airports, tunnels) covering the design-build-finance-operate stages and investigating-planning-developing phases of major mining properties. Types of mine handled include gold, zinc, nickel and iron, and project locations spread over China, Hong Kong, Canada and the U.S.

Mr. Law Fei Shing, aged 48, has been appointed as Executive Director, Company Secretary and Qualified Accountant since August 2004 and appointed as Chief Executive Officer since November 2007. Mr. Law is a practising Certified Public Accountant in Hong Kong. He is also a member of American Institute of Certified Public Accountants (AICPA), USA and associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Law has over 18 years of experience in the audit and accounting services. Mr. Law was an independent non-executive director of New Times Group Holdings Limited (stock code: 166) for the period from September 2005 to October 2006, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and an executive director and company secretary of Tiger Tech Holdings Limited (stock code: 8046) for the period from June to October 2007, the shares of which are listed on the GEM Board of the Stock Exchange.

Mr. So Chi Keung, aged 44, was appointed as Independent Non-Executive Director for the period from March to June 2005 and was re-designed as Executive Director since then. Mr. So has been serving as the managing directors of numerous private companies. He had extensive experiences in purchase, sales and marketing of Chinese herbal medicine in previous years. Since 1989, Mr. So has been serving in the Food and Beverages industry for over 11 years and is currently taking active role in the management and investment of numerous Chinese restaurants in Hong Kong. Recently, he has extended his scope of business and investment to real-estate development, private equities management, strategic and investments consultancy in Mainland China, Hong Kong and Macau. Mr. So had professional knowledge and experience in human resource and financial management of firms in different business.

Biographical Details in respect of Directors and Senior Management Staff

Mr. Fok Po Tin, aged 48, has been appointed as Executive Director since March 2007. He holds a Bachelor's degree in Business Administration with houours from the Chinese University of Hong Kong and a Bachelor's degree in Laws from the Peiking University. He is currently a practicing solicitor of the High Court of Hong Kong and is the principal of Henry Fok & Company, Solicitors. Mr. Fok has over 13 years of extensive experience as a solicitor of general practice and is very familiar with commercial law. He currently is an executive director of Yueshou Environmental Holdings Limited (stock code: 1191) and Bestway International Holdings Limited (Stock Code: 718). These companies are listed on the Stock Exchange.

Mr. Leung Kai Hung, aged 38, has been appointed as Executive Director since March 2007. He holds a Master's degree in Finance from the National University of Ireland. He also obtained a professional diploma in Financial Planning from the School of Professional and Continuing Education of the University of Hong Kong. Mr. Leung is a Certified Financial PlannerCM and was a senior tax consultant of a tax consultancy firm.

Mr. Yeung Delon, aged 29, holds a Bachelor's degree in Arts with major in Economics from the Simon Fraser University in Canada. He has been appointed as Executive Director since June 2007 and had previously assumed the positions of senior consultant, project manager and sales executive of various companies in Canada and Hong Kong. With extensive experience in corporate finance, management, and sales and marketing, he is currently in the Postgraduate Programme at The Hong Kong Polytechnic University to obtain his Master's degree in Corporate Finance.

NON-EXECUTIVE DIRECTOR

Mr. Lam Shing Tsun, Edmond, aged 58, has been appointed as Non-Executive Director since November 2007. He began his career with Hong Kong and China Gas Company Limited in 1967 and has previously assumed the positions of deputy general manager and senior salesman of various companies, such as Manulife (International) Limited. Mr. Lam joined American International Assurance Company (Bermuda) Limited ("AIA") from 1982. He is currently a senior district director in AIA and obtained various awards in the past few years. He has over 25 years' extensive experience in insurance and management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lum Pak Sum, aged 47, has been appointed as Independent Non-Executive Director since September 2005. He holds a master degree in business administration from the University of Warwick, UK and a LLB (Honor) degree from the University of Wolverhampton, UK. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, UK. Mr. Lum has over 19 years' experience in the financial field, the money market and capital market. Mr. Lum is currently also the independent non-executive director of Grand Field Group Holdings Limited, Golife Concepts Holdings Limited, Tiger Tech Holdings Limited and Beauforte Investors Corporation Limited. These companies are listed on the Stock Exchange.

Biographical Details in respect of Directors and Senior Management Staff

Mr. Wan Hon Keung, aged 46, has been appointed as an Independent Non-Executive Director since April 2007. He has over 20 years of experience in accounting and administration fields. Mr. Wan is a fellow member of the Association of Chartered Certified Accountants (ACCA) and associate member of Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Wan was appointed as an independent non-executive director of Frankie Dominion International Limited (stock code: 704), the shares of which are listed on the main board of the Stock Exchange, on 16 April 2008. Mr. Wan was also an independent non-executive director of Polyard Petroleum International Group Limited (stock code: 8011) for the period from 12 April 2006 to 30 November 2007, the shares of which are listed on the GEM board of the Stock Exchange.

Mr. Sun Tak Keung, aged 44, has been appointed as Independent Non-Executive Director since April 2007. He was a manager in Trigold & Co. and had over 11 years of marketing and trading experience in garment industry and in daily consumable goods in Hong Kong and overseas. Mr. Sun was appointed as an independent non-executive director of Frankie Dominion International Limited (stock code: 704), the shares of which are listed on the main board of the Stock Exchange, on 16 April 2008. Mr. Sun was also an executive director of Polyard Petroleum International Group Limited (stock code: 8011) for the period from March 2002 to 28 November 2007, the shares of which are listed on the GEM board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Chen Jin Ping, aged 45, joined the Group in 2007 as chief engineer. Prior to joining the Group, he was the deputy general manager of Qinghai Forest Source Mining Industry Developing Company Limited and project director of the Gansu Hydropower Engineering Office. Mr. Chen has a degree in civil engineering and construction management, and has over 20 years of experience in construction management of major infrastructure and water resources projects in the northwestern region of China. He has been awarded several prizes by the Gansu province for his contributions in the development of innovative construction techniques.

Mr. Qiao Jin Liang, aged 70, joined the Group in 2007 as geological consultant. Prior to joining the Group, he was the geological consultant to Qinghai Forest Source Mining Industry Developing Company Limited and chief geological engineer of the Qinghai Department of Geological and Mineral Resource. Mr. Qiao has a degree in geology and has over 40 years of experience in geological exploration and assessment of mineral deposits at various locations in northern China.

Mr. Choi Po Shoen, aged 54, joined the Group in 2007 as director of infrastructure. Prior to joining the Group, he was a director of Kapo Construction Company in charge of construction management of various major infrastructure projects in Hong Kong. Mr. Choi has a degree in civil engineering and has over 25 years of experience in construction management, and contract planning and implementation.

Mr. Garry James Ward, aged 63, joined the Group in 2007 as senior superintendent of infrastructure and mining. Prior to joining the Group, he was involved as resident chief superintendent and construction manager in various major infrastructure and mining projects in Hong Kong and Australia. He has over 40 years of experience in construction management and construction site safety.

Biographical Details in respect of Directors and Senior Management Staff

Mr. Choi Hok Ya, aged 53, was graduated from the University Toronto, Canada with a Bachelor degree of Art. He is a managing director of International Carpet Co., Limited ("ICC") (a subsidiary of the Group) was still a cottage industry. Mr. Choi has over 21 years of experience in carpet manufacturing and marketing. Under his leadership, ICC has been awarded exclusive distributorship/agency for the territory by couple of world-renowned carpet manufacturers from Europe and United States of America. Numerous prestigious projects for the hospitality and corporate sectors have been won.

Mr. Cheang Fong Wa, aged 55, assistant to general manager. He graduated from 福建省體育學院(Fujian Provincial Physical Education Academy). Prior to joining the Group in January 1995, he has over three years' experience in the carpet industry and has engaged in trading, property and construction.

Mr. Qi Qi Yong, aged 33, was graduated from Jiangxi University, PRC. He has more than 8 years accounting experience. He is an qualified accountant (PRC). He joined our factory in July 2004. He is the chief accountant of our factory.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has made continued efforts to incorporate key elements of good corporate governance with emphasis on transparency, independence and accountability. During the financial year ended 31 December 2007, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code on CGP") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2007.

Board of Directors

The board of directors of the Company comprises:

Executive Directors:	Mr. Tam Owen *(Chairman)* Dr. Yuen Clement Ming Kai *(Vice-Chairman)* Mr. Law Fei Shing *(Chief Executive Officer)* Mr. So Chi Keung Mr. Fok Po Tin Mr. Leung Kai Hung Mr. Yeung Delon
Non-Executive Director:	Mr. Lam Shing Tsun, Edmond
Independent Non-Executive: Directors	Mr. Lum Pak Sum Mr. Wan Hon Keung Mr. Sun Tak Keung

Chairman and Chief Executive Officer

The Chairman and the Chief Executive Officer of the Company are Mr. Tam Owen and Mr. Law Fei Shing respectively. The Chairman of the board is responsible for the leadership and effective running of the board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The segregation of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

Corporate Governance Report

Non-Executive Directors

The three Independent Non-Executive Directors are persons of high calibre, with academic and professional qualifications in the fields of accounting, law, banking and business management, and provide checks and balances so that the interests of all shareholders are adequately and fairly represented. The Company has received a confirmation of independence from each of its Independent Non-Executive Director, and considers these Directors to be independent under Rule 3.13 of the Listing Rules.

The Board formulates overall strategy of the Group, monitors its financial performance and maintains effective oversight over the management. The Board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

Appointment and Re-election of Directors

According to article 108(A) of the Articles of Association of the Company at each annual general meeting one-third of the Directors for the time being (or, if their number is not three, or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. A retiring Director shall be eligible for re-election.

Corporate Governance Report

During the year, twenty one full Board meetings were held and the attendance of each of its Directors is set out as follows:

	Number of Board meetings attended/eligible to attend Board
Executive Directors	
Tam Owen *(Note 1)*	11/11
Yuen Clement Ming Kai *(Note 2)*	4/4
Law Fei Shing	21/21
So Chi Keung	21/21
Fok Po Tin *(Note 3)*	14/20
Leung Kai Hung *(Note 3)*	19/20
Yeung Delon *(Note 1)*	11/11
Pang Man Kin, Nixon *(Note 4)*	12/12
Tsao Ke Wen, Calvin *(Note 5)*	16/16
Lam Shu Chung *(Note 6)*	14/14
Non-Executive Directors	
Lam Shing Tsun, Edmond *(Note 2)*	4/4
Ma Chung Wo, Cameron *(Note 7)*	18/18
Independent Non-Executive Directors	
Lum Pak Sum	21/21
Wan Hon Keung *(Note 8)*	17/17
Sun Tak Keung *(Note 8)*	17/17
Poon Chiu *(Note 9)*	4/4
Li Chak Hung *(Note 9)*	4/4

Note 1: Appointed on 18 June 2007
Note 2: Appointed on 5 November 2007
Note 3: Appointed on 1 March 2007
Note 4: Resigned on 11 July 2007
Note 5: Resigned on 17 October 2007
Note 6: Resigned on 20 July 2007
Note 7: Resigned on 20 November 2007
Note 8: Appointed on 4 April 2007
Note 9: Resigned on 4 April 2007

Corporate Governance Report

Every board member have full and timely access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Company Secretary continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

Remuneration Committee

The Remuneration Committee of the Company, formed in September 2005, comprises the Chairman and all three Independent Non-Executive Directors namely Mr. Lum Pak Sum, Mr. Wan Hon Keung and Mr. Sun Tak Keung. The Remuneration Committee held seven meetings in 2007 to review the overall pay trend in Hong Kong of 2007, and to review and recommend adjustments in remuneration of the Executive Directors, the Chief Executive Officer, the Chairman and the Vice-Chairman of the Company.

The attendance of each of the members of the Remuneration Committee is set out as follows:

Members of Remuneration Committee	**Number of meetings attended/eligible to attend meeting**
Tam Owen (Chairman) *(Note 1)*	2/2
Lum Pak Sum	7/7
Wan Hon Keung *(Note 2)*	5/5
Sun Tak Keung *(Note 2)*	5/5
Pang Man Kin, Nixon *(Note 3)*	5/5
Poon Chiu *(Note 4)*	2/2
Li Chak Hung *(Note 4)*	2/2

Note 1: Appointed on 18 June 2007
Note 2: Appointed on 4 April 2007
Note 3: Resigned on 11 July 2007
Note 4: Resigned on 4 April 2007

The major roles and functions of the Group's Remuneration Committee are as follows:

1. To review annually and recommend to the board the overall remuneration policy for the Directors, the Chief Executive and key senior management officers.

2. To review annually the performance of the Executive Directors, the Chief Executive and key senior management officers and recommend to the Board specific adjustments in remuneration and/or reward payments.

Corporate Governance Report

3. To ensure that the level of remuneration for Non-Executive Directors and Independent Non-Executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the board of the respective companies in the Group.

4. To review and approve the compensation payable to executive directors, the Chief Executive and key senior management officers in connection with any loss or termination of their office or appointment.

5. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct.

6. To ensure that no director is involved in deciding his own remuneration.

Nomination Committee

The Nomination Committee of the Company, formed in September 2005, comprises the Chairman and all three Independent Non-Executive Directors, namely Mr. Lum Pak Sum, Mr. Wan Hon Keung and Mr. Sun Tak Keung. The Nomination Committee held six meeting in 2007 to recommend the appointment of Directors and senior management to the Board.

The attendance of each of the members of the Nomination Committee is set out as follows:

Members of Nomination Committee	**Number of meetings attended/eligible to attend meeting**
Tam Owen (Chairman) *(Note 1)*	2/2
Lum Pak Sum	6/6
Wan Hon Keung *(Note 2)*	4/4
Sun Tak Keung *(Note 2)*	4/4
Pang Man Kin, Nixon *(Note 3)*	4/4
Poon Chiu *(Note 4)*	2/2
Li Chak Hung *(Note 4)*	2/2

Note 1: Appointed on 18 June 2007
Note 2: Appointed on 4 April 2007
Note 3: Resigned on 11 July 2007
Note 4: Resigned on 4 April 2007

Corporate Governance Report

The major roles and functions of the Group's Nomination Committee are as follows:

1. To assess and recommend the appointment and re-appointment of Directors and Chief Executive Officer to the Board.

2. To oversee the overall composition of the Board, in terms of the appropriate size and skills, and the balance of authority among Executive Directors, Non-Executive Directors and Independent Non-Executive Directors through annual review.

3. To assess the independence of Independent Non-Executive Directors.

4. To establish a mechanism for the formal assessment on the effectiveness of the Board as a whole and the performances of each Director, the Chief Executive and other key senior management officers.

5. To oversee the appointment, management succession planning and performance evaluation of key senior management officers.

Accountability and Audit

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Company and the Group and of the Group's results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2007, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis. The Company has received acknowledgements from all Directors of their responsibility for preparing the financial statements. It is the responsibility of the auditors to form an independent opinion, based on their audit, on these financial statements and to report their opinion to the members of the Company, as a body, and for no other purpose. The auditors do not assume responsibilities toward or accept liability to any other person for the contents of this annual report.

Audit Committee

The Audit Committee of the Company is responsible for review of the Group's accounting principles and practices internal control procedures and financial reporting matters including the review of the interim and final results of the Group prior to recommending to the Board for approval. The Audit Committee comprises the three Independent Non-Executive Directors of the Company, namely Mr. Lum Pak Sum, Mr. Wan Hon Keung and Mr. Sun Tak Keung. In 2007, The Audit Committee held two meetings in 2007 at which it reviewed the final results for the year ended 2006 and interim accounts for the 6 months ended 30 June 2007, which were attended by Mr. Lum Pak Sum, Mr. Wan Hon Keung and Mr. Sun Tak Keung.

Corporate Governance Report

The major roles and functions of the Group's Audit Committee are as follows:

1. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the Group.

2. To discuss with the external auditors the nature and scope of the audit.

3. To review the interim and annual financial statements before submission to the board of directors.

4. To discuss problems and reservations arising from the interim review and final audit, and any matters the auditors may wish to discuss.

5. To review the external auditors' management letters and management's response.

6. To review the Group's internal control systems.

7. To consider the major findings of internal investigations and management's response.

Auditors' Remuneration

During the year, Grant Thornton, Certified Public Accountants, was appointed as the auditors of the Company and to hold office until the conclusion of the next annual general meeting of the Company.

The following table sets forth the type of, and fees for, the principal audit services and non-audit services provided by Grant Thornton to the Group for the year ended 31st December 2007:

	Services rendered **Fees paid/payable** HK$'000
Audit services	800
Non-audit services i.e. consultancy	680
	1,480

Management of Risks

The respective boards of directors of the subsidiaries are responsible for the oversight of risks and approval of risk management policies. The Internal Audit of the Group performs regular audits to ensure compliance with the policies and reports directly to the Audit Committee.

Corporate Governance Report

Communications with Shareholders and Investors

The Board recognises the importance of good communications with all shareholders. Extensive information on the Company's activities is provided in the annual and interim reports, which are sent to shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board as well as Chairmen of the Nomination and Remuneration Committees are prepared to answer shareholders' questions. Details of major transactions undertaken by the Group are also disclosed on a timely manner to shareholders through press announcements to facilitate shareholders' understanding of the Group's activities.

Directors' Responsibility for The Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Group's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable.

Internal Control

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Company and its principal subsidiaries with no material issues noted.

Report of the Directors

The Directors present their report and the audited financial statements of Xian Yuen Titanium Resources Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group include manufacturing and trading of carpets, exploration of mine and trading of goods.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 114. The Directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results of the Group for the years ended 31 December 2003, 2004, 2005, 2006 and 2007, and the assets, liabilities and minority interests of the Group as at each of the year end date, prepared on the basis set out in the note below.

Report of the Directors

RESULTS

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**55,647**	26,523	40,982	19,560	127,338
OPERATING LOSS	**(75,326)**	(46,008)	(89,444)	(74,503)	(43,576)
Finance costs	**(3,235)**	(149)	(1,686)	(3,290)	(2,168)
LOSS BEFORE INCOME TAX	**(78,561)**	(46,157)	(91,130)	(77,793)	(45,744)
INCOME TAX	**—**	—	—	84	(3,500)
LOSS FOR THE YEAR	**(78,561)**	(46,157)	(91,130)	(77,709)	(49,244)
LOSS ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	**(79,129)**	(46,167)	(91,136)	(77,486)	(31,853)
MINORITY INTERESTS	**568**	10	6	(223)	(17,391)
	(78,561)	(46,157)	(91,130)	(77,709)	(49,244)

Report of the Directors

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS	**702,176**	82,614	83,403	118,406	161,226
CURRENT ASSETS	**168,012**	17,903	27,199	57,089	59,664
TOTAL ASSETS	**870,188**	100,517	110,602	175,495	220,890
CURRENT LIABILITIES	**68,157**	36,558	22,050	77,298	76,048
NON-CURRENT LIABILITIES	**177,403**	1,158	2,660	18,128	139
TOTAL LIABILITIES	**245,560**	37,716	24,710	95,426	76,187
NET ASSETS	**624,628**	62,801	85,892	80,069	144,703
MINORITY INTERESTS	**33,581**	(217)	(227)	(233)	317

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in the share capital during the year together with the reasons therefore, are set out in note 32 to the financial statements.

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, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Report of the Directors

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

Under the Companies Law (Revised) of the Cayman Islands, the share premium account of the Company of approximately HK$560 million as at 31 December 2007, is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the sales to the Group's five largest customers accounted for approximately 47% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 52%.

Purchases from the Group's five largest suppliers accounted for approximately 63% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 40%.

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

Report of the Directors

DIRECTORS

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

Executive Directors

Mr. Tam Owen *(Chairman, appointed on 18 June 2007)*
Dr. Yuen Clement Ming Kai *(Vice-Chairman, appointed on 5 November 2007)*
Mr. Law Fei Shing *(Chief Executive Officer)*
Mr. So Chi Keung
Mr. Fok Po Tin *(Appointed on 1 March 2007)*
Mr. Leung Kai Hung *(Appointed on 1 March 2007)*
Mr. Yeung Delon *(Appointed on 18 June 2007)*
Mr. Pang Man Kin, Nixon *(Resigned on 11 July 2007)*
Mr. Tsao Ke Wen, Calvin *(Resigned on 17 October 2007)*
Mr. Lam Shu Chung *(Resigned on 20 July 2007)*

Non-Executive Directors

Mr. Lam Shing Tsun, Edmond *(Appointed on 5 November 2007)*
Dr. Ma Chung Wo, Cameron *(Resigned on 20 November 2007)*

Independent Non-Executive Directors

Mr. Lum Pak Sum
Mr. Wan Hon Keung *(Appointed on 4 April 2007)*
Mr. Sun Tak Keung *(Appointed on 4 April 2007)*
Mr. Poon Chiu *(Resigned on 4 April 2007)*
Mr. Li Chak Hung *(Resigned on 4 April 2007)*

In accordance with article 108(A) of the Company's Articles of Association, Messrs Law Fei Shing, So Chi Keung and Lum Pak Sum will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with article 112 of the Company's Articles of Association, Dr. Yuen Clement Ming Kai and Mr. Lam Shing Tsun, Edmond who were appointed as Directors of the Company on 5 November 2007, shall hold office until the forthcoming annual general meeting of the Company following their appointments and, being eligible, offer themselves for re-election.

The Company has received from each Independent Non-Executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company considers all the Independent Non-Executive Directors are independent as defined in the Listing Rules.

Report of the Directors

Mr. Lum Pak Sum, an Independent Non-Executive Director, is currently appointed with no specific length or proposed length of service with the Company in respect of the appointment and no specific terms of service have been agreed.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 7 to 10 of the annual report.

DIRECTORS' SERVICE CONTRACTS

On 5 November 2007, Mr. Law Fei Shing entered into a service contract with the Company, under which the Company appointed Mr. Law Fei Shing and Mr. Law Fei Shing agreed to act as the chief executive officer, an executive director, the company secretary, the authorized representative and the qualified accountant of the Company for a term of 3 years.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed elsewhere in the annual report, no director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the year.

PENSION SCHEME ARRANGEMENT

Particulars of the pension scheme arrangements are set out in note 3(s)(i) to the financial statements.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2007, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and 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 or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long Positions in Ordinary Shares of the Company

Name of Director	Nature of interests	Number of shares held	Approximate percentage of shareholding
Mr. Law Fei Shing *(Note)*	Personal	15,450,000	1.14%

Note: Mr. Law Fei Shing entered into an agreement with Ms. Leung Lai Ching Margaret on 5 November 2007 pursuant to which Ms. Leung Lai Ching Margaret has agreed to transfer to Mr. Law Fei Shing an aggregate of 15,450,000 shares as the consideration for Mr. Law Fei Shing to enter into a service contract with the Company. The above shares will be transferred to Mr. Law Fei Shing on 5 November 2008, 5 November 2009 and 5 November 2010 proportionally. For details, please refer to the Company's announcement dated 5 November 2007.

Save as disclosed above, as at 31 December 2007, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (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 Model Code; and none of the directors or the spouses, or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report of the Directors

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

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2007, the following persons had interests of 5% or more in the shares (as defined in the SFO) of the Company set opposite its respective name:

Name of substantial shareholders	Number of shares held	Approximate percentage of shareholding
Ms. Leung Lai Ching, Margaret *(Note 1)*	1,215,900,000	89.49%
L & L Holdings Limited *(Note 2)*	120,000,000	8.83%
Mr. Tsao Ke Wen, Calvin *(Note 2)*	120,000,000	8.83%

Notes:

1. As at 31 December 2007, Ms. Leung Lai Ching, Margaret held 261,900,000 shares and convertible bonds in respect of 954,000,000 underlying shares.

2. L & L Holdings Limited is an investment holding company incorporated in the Republic of the Marshall Islands, the entire issued share capital of which is wholly and beneficially owned by Mr. Tsao Ke Wen, Calvin who was resigned as Director on 17 October 2007.

All the interests stated above represent long positions in the ordinary shares of the Company. As at 31 December 2007, no short positions were recorded in the register maintained by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any person or entity that provides research, development or other technological support to the Group and any minority shareholder in the Company's subsidiaries. The Scheme was adopted on 6 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time.

Report of the Directors

Pursuant to the extraordinary general meeting passed on 10 March 2006, the general scheme limit of the Company's share option scheme was reset to 52,520,000 shares, representing 10% of the Company's issued share capital on the date of meeting, with the passing of ordinary resolution, which allowing the Company to grant further options carrying the rights to subscribe for a maximum of 52,520,000 shares. As at 1 January 2007, the Company had 25,820,000 share options (the "remaining share options") outstanding under the Scheme. During the year , the remaining share options were exercised and as a result, the Company issued 25,820,000 shares.

Furthermore, pursuant to the extraordinary general meeting passed on 31 October 2007, the general scheme limit of the Company's share option scheme has been reset to 95,272,000 shares, representing 10% of the Company's issued share capital on the date of meeting, with the passing of ordinary resolution, which allowing the Company to grant further options carrying the rights to subscribe for a maximum of 95,272,000 shares. As at the dated of this annual report, no share option has been granted pursuant to the Scheme.

The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors, in addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of:

(i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options;

(ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and

(iii) the nominal value of the shares.

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

Report of the Directors

Details of the movement of share options under the Share Option Scheme during the year are as follows:

Participants	Date of grant	Number of share options outstanding as at 1 January 2007 ('000)	Exercise price per share HK$	Exercise period	Number of share options exercised during the year ('000)	Balance as at 31 December 2007 ('000)	Closing price immediately before the date on which the options were granted
Directors							
Mr. Pang Man Kin, Nixon	7 March 2006	5,000	0.350	10 March 2006 to 9 March 2011	5,000	—	0.350
Mr. Tsao Ke Wen, Calvin	7 March 2006	500	0.350	10 March 2006 to 9 March 2011	500	—	0.350
Mr. Law Fei Shing	7 March 2006	3,000	0.350	10 March 2006 to 9 March 2011	3,000	—	0.350
Dr. Ma Chung Wo, Cameron	7 March 2006	500	0.350	10 March 2006 to 9 March 2011	500	—	0.350
Directors of subsidiaries							
In aggregate	7 March 2006	1,500	0.350	10 March 2006 to 9 March 2011	1,500	—	0.350
	27 November 2006	8,720	0.540	27 November 2006 to 9 March 2011	8,720	—	0.540
Other employees							
In aggregate	7 March 2006	400	0.350	10 March 2006 to 9 March 2011	400	—	0.350
	2 May 2006	3,200	0.365	2 May 2006 to 9 March 2011	3,200	—	0.365
Third parties							
	2 May 2006	3,000	0.365	2 May 2006 to 9 March 2011	3,000	—	0.365
Total		**25,820**			**25,820**	**—**	

All of above share options can be exercised immediately upon acceptance of the offer by the grantee and there were no vesting conditions/period.

CONNECTED TRANSACTIONS

Details of the connected transactions that are required to be disclosed for the year are set out in note 38 to the financial statements. Save as disclosed therein, there were no transactions required to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Independent Non-Executive Directors of the Company are of the opinion that the terms of the above transactions are fair and reasonable so far as the shareholders of the Company are concerned; and that the transactions have been entered into by the Group in its ordinary and usual course of business and were carried out in accordance with the terms of the agreements governing such transactions.

Report of the Directors

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to date of this annual report, no directors of the Company are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined by the Listing Rules, other than those businesses of which the directors of the Company have been appointed as directors to represent the interests of the Company and/or the Group.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 43 to the financial statements.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with management the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company for the year ended 31 December 2007. The Audit Committee comprises the three independent non-executive directors of the Company. During the year, two regular meetings of the audit committee have been held.

AUDITORS

The financial statements for the year ended 31 December 2007 have been audited by Grant Thornton, Certified Public Accountants, who retire and being eligible offer themselves for re-appointment.

On behalf of the Board

LAW FEI SHING
Chief Executive Officer and Executive Director

Hong Kong, 25 April 2008

Independent Auditors' Report

Grant Thornton
均富

Member of Grant Thornton International Ltd

To the members of Xian Yuen Titanium Resources Holdings Limited 森源鈦礦控股有限公司
(Formerly known as Aurora Global Investment Holdings Limited 旭日環球投資控股有限公司)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Xian Yuen Titanium Resources Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 32 to 114, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true

Independent Auditors' Report

and fair presentation of the financial statements 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 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 2007 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.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

25 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	5	**55,647**	26,523
Cost of sales		**(53,146)**	(29,240)
Gross profit/(loss)		**2,501**	(2,717)
Other income	5	**4,232**	7,476
Selling and distribution expenses		**(2,429)**	(1,865)
Administrative expenses		**(49,570)**	(38,299)
Deficits on revaluation of property, plant and equipment	15(a)	**(26,976)**	—
Other operating expenses		**(3,084)**	(10,603)
Operating loss		**(75,326)**	(46,008)
Finance costs	7	**(3,235)**	(149)
Loss before income tax	8	**(78,561)**	(46,157)
Income tax expense	9	**—**	—
Loss for the year		**(78,561)**	(46,157)
Attributable to:			
Equity holders of the Company	11	**(79,129)**	(46,167)
Minority interests		**568**	10
Loss for the year		**(78,561)**	(46,157)
Loss per share for loss attributable to the equity holders of the Company during the year	12		
— Basic		**(HK cents 9.4)**	(HK cents 8.7)
— Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15(a)	**49,129**	73,952
Prepaid lease payments	16	**13,926**	4,912
Deposits	37(b),(c)	**—**	3,750
Goodwill	18	**611,485**	—
Exploration and evaluation assets	19	**27,636**	—
		702,176	82,614
Current assets			
Inventories	20	**4,154**	4,033
Trade and bills receivables	21	**17,219**	4,504
Prepayments, deposits and other receivables	22	**95,914**	8,590
Cash at banks and in hand	23(a)	**50,725**	776
		168,012	17,903
Current liabilities			
Trade payables	24	**19,704**	9,723
Deposits received, other payables and accruals	25	**43,022**	25,611
Amounts due to directors	26	**—**	1,143
Finance lease payables	27	**91**	76
Bank and other borrowings	28	**5,340**	5
		68,157	36,558
Net current assets/(liabilities)		**99,855**	(18,655)
Total assets less current liabilities		**802,031**	63,959
Non-current liabilities			
Finance lease payables	27	**130**	234
Amounts due to minority shareholders	29	**37,602**	924
Convertible bonds	30	**139,671**	—
		177,403	1,158
Net assets		**624,628**	62,801

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	32	**13,587**	5,519
Reserves	33(a)	**577,460**	57,499
		591,047	63,018
Minority interests		**33,581**	(217)
Total equity		**624,628**	62,801

Tam Owen
Director

Law Fei Shing
Director

Balance Sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15(b)	**157**	261
Interests in subsidiaries	17	**661,395**	61,186
Deposits	37(b),(c)	**—**	3,750
		661,552	65,197
Current assets			
Prepayments, deposits and other receivables	22	**346**	48
Cash at banks and in hand	23(b)	**5,688**	9
		6,034	57
Current liabilities			
Deposits received, other payables and accruals	25	**6,891**	2,167
Amount due to a director	26	**—**	100
		6,891	2,267
Net current liabilities		**(857)**	(2,210)
Total assets less current liabilities		**660,695**	62,987
Non-current liabilities			
Convertible bonds	30	**139,671**	—
Net assets		**521,024**	62,987
EQUITY			
Share capital	32	**13,587**	5,519
Reserves	33(b)	**507,437**	57,468
Total equity		**521,024**	62,987

Tam Owen
Director

Law Fei Shing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Equity attributable to equity holders of the Company									Minority interests	Total equity
	Share capital HK$'000	Share premium HK$' 000	Capital reserve HK$'000	Assets revaluation reserve HK$'000	Exchange reserve HK$'000	Convertible bond equity reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2006	5,252	85,981	137,610	9,735	100	—	—	(152,559)	86,119	(227)	85,892
Currency translation	—	—	—	—	2,833	—	—	—	2,833	—	2,833
Disposals of property, plant and equipment	—	—	—	(9)	—	—	—	—	(9)	—	(9)
Net income/(expense) recognised directly in equity	—	—	—	(9)	2,833	—	—	—	2,824	—	2,824
Net loss for the year	—	—	—	—	—	—	—	(46,167)	(46,167)	10	(46,157)
Total recognised income and expense for the year	—	—	—	(9)	2,833	—	—	(46,167)	(43,343)	10	(43,333)
Share options granted (note 34(a))	—	—	—	—	—	—	11,190	—	11,190	—	11,190
Share options cancelled	—	—	—	—	—	—	(413)	—	(413)	—	(413)
Exercise of share options and issue of shares (note 32(g))	267	14,065	—	—	—	—	(4,867)	—	9,465	—	9,465
At 31 December 2006 and 1 January 2007	5,519	100,046	137,610	9,726	2,933	—	5,910	(198,726)	63,018	(217)	62,801
Currency translation	—	—	—	—	7,091	—	—	—	7,091	—	7,091
Reversal of assets revaluation reserve (note 15(a))	—	—	—	(9,726)	—	—	—	—	(9,726)	—	(9,726)
Net income/(expense) recognised directly in equity	—	—	—	(9,726)	7,091	—	—	—	(2,635)	—	(2,635)
Net loss for the year	—	—	—	—	—	—	—	(79,129)	(79,129)	568	(78,561)
Total recognised income and expense for the year	—	—	—	(9,726)	7,091	—	—	(79,129)	(81,764)	568	(81,196)
Acquisition of subsidiaries (note 39(a), (c))	—	—	—	—	—	—	—	—	—	33,230	33,230
Issue of shares	6,450	363,696	—	—	—	—	—	—	370,146	—	370,146
Issue of convertible bonds (note 30)	—	—	—	—	—	189,421	—	—	189,421	—	189,421
Issue of shares on conversion of convertible bonds (note 32(f))	1,360	80,240	—	—	—	(42,160)	—	—	39,440	—	39,440
Exercise of share options and issue of shares (note 32(g))	258	16,438	—	—	—	—	(5,910)	—	10,786	—	10,786
At 31 December 2007	**13,587**	**560,420**	**137,610**	**—**	**10,024**	**147,261**	**—**	**(277,855)**	**591,047**	**33,581**	**624,628**

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Loss before income tax		**(78,561)**	(46,157)
Adjustments for:			
Depreciation		**8,401**	7,447
Write-down of inventories		**458**	—
Amortisation of prepaid lease payments		**299**	112
Bad debts written off		**—**	65
Impairment of goodwill		**1,081**	—
Provision for impairment loss of trade and other receivables		**1,488**	314
Gain on disposal of a subsidiary	40	**(281)**	—
Loss on disposals of property, plant and equipment		**490**	2
Deficits on revaluation of property, plant and equipment		**26,976**	—
Interest income		**(2,745)**	(85)
Interest expenses		**3,235**	149
Share-based compensation		**—**	10,777
Operating loss before working capital changes		**(39,159)**	(27,376)
(Increase)/Decrease in inventories		**(335)**	1,680
(Increase)/Decrease in trade and bills receivables		**(11,121)**	843
Increase in prepayments, deposits and other receivables		**(71,077)**	(1,870)
Increase in trade payables		**7,480**	516
Increase in deposit received, other payables and accruals		**13,492**	14,911
(Decrease)/Increase in amounts due to directors		**(1,143)**	1,143
Increase/(Decrease) in amounts due to minority shareholders		**39,869**	(1,432)
Cash used in operations		**(61,994)**	(11,585)
Interest paid		**(170)**	(149)
Hong Kong profits tax paid		**—**	—
Net cash used in operating activities		**(62,164)**	(11,734)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flow from investing activities			
Deposits paid		—	(2,750)
Purchases of property, plant and equipment	37(b)	(3,176)	(943)
Payments to acquire exploration and evaluation assets		(8,572)	—
Net cash outflow arising from disposal of a subsidiary	40	(3)	—
Proceeds from disposals of property, plant and equipment		15	5
Purchases of subsidiaries (net of cash and cash equivalent acquired)	37(c), 39	(82,374)	—
Interest received		2,745	85
Net cash used in investing activities		(91,365)	(3,603)
Cash flow from financing activities			
New other borrowings		5,340	—
Proceeds from issue of shares upon placement		187,446	—
Proceeds from issue of shares upon exercise of share options	32(g)	10,786	9,465
Repayments of trust receipt loans		—	(2,257)
Capital element of finance lease payments		(115)	(70)
Decrease in pledged time deposits		—	2,031
Net cash generated from financing activities		203,457	9,169
Net increase/(decrease) in cash and cash equivalents		49,928	(6,168)
Cash and cash equivalents at 1 January		771	6,931
Effect on foreign exchange rate changes		26	8
Cash and cash equivalents at 31 December	23(a)	50,725	771

Notes to the Financial Statements

For the year ended 31 December 2007

1. GENERAL INFORMATION

Xian Yuen Titanium Resources Holdings Limited (the “Company”) is a limited liability incorporated and domiciled in Cayman Islands. The address of its registered office is P.O. Box 2681, Century Yard, Cricket Squares, Hutchins Drive, Grand Cayman KY1-1111, Cayman Islands, British West Indies and its principal place of business is Suites 5303-4, 53rd floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

During the year, the principal activities of the Company and its subsidiaries (together referred to as the “Group”) include:

— Manufacturing of carpets
— Trading of carpets
— Exploration of mine
— Trading of goods

On 5 November 2007, the Group acquired 51% equity interest in Kanson Development Limited (“Kanson”) and its subsidiaries, Hong Kong Forest Source Mining Industry Holding Company Limited (“HKFSMI”), Beijing Forest Source Mining Industry Developing Company Limited (“BFSMI”), Qinghai Forest Source Mining Industry Developing Company Limited (“QFSMI”), through a wholly-owned subsidiary, namely Smooth Way International Limited (“Smooth Way”). Kanson and its subsidiaries are engaged in the exploration of mine in the People’s Republic of China (the “PRC”). The consideration of the acquisition was satisfied by cash payment of HK$100,000,000, issue of shares of HK$175,500,000 and issue of convertible bonds of HK$365,000,000. Details of this acquisition has been set out in the Company’s circular dated 15 October 2007.

Pursuant to a special resolution passed on 1 February 2008 at an extraordinary general meeting, the Company’s name was changed from Aurora Global Investment Holdings Limited to Xian Yuen Titanium Resources Holdings Limited. With effect from 11 March 2008, the Company also adopted a new Chinese name “森源鈦礦控股有限公司” to replace “旭日環球投資控股有限公司” for identification purpose.

Notes to the Financial Statements

For the year ended 31 December 2007

1. GENERAL INFORMATION (Continued)

The consolidated financial statements on pages 32 to 114 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 ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") unless otherwise stated.

The consolidated financial statements for the year ended 31 December 2007 were approved for issue by the board of directors on 25 April 2008.

2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2007, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2007 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant changes in the Group's accounting policies but gave rise to additional disclosures. The specific transitional provisions contained in some of these new or amended HKFRSs have been considered.

In accordance with the amendment HKAS 1 *Presentation of Financial Statements — Capital Disclosures*, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change in HKAS 1 are detailed in note 42.

Notes to the Financial Statements

For the year ended 31 December 2007

2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

HKFRS 7 *Financial Instruments: Disclosures* is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends disclosure requirements previously set out in HKAS 32 *Financial Instruments: Presentation and Disclosures* and has been adopted by the Group in its financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature:

— a sensitivity analysis, to explain the Group's market risk exposure in regards to its financial instruments, and

— a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. These new disclosures are set out in note 41. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments on cash-flows, net income or balance sheet line items.

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amended)	Share-based Payment — Amendments Relating to Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) -Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) -Int 12	Service Concession Arrangements[4]
HK(IFRIC) -Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) -Int 14	HKAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[5]

Notes to the Financial Statements

For the year ended 31 December 2007

2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The directors of the Company are currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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 on the historical cost convention except for the revaluation of property, plant and equipment and certain financial assets and liabilities which are stated at fair values. The measurement bases are fully described in the accounting policies 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.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less impairment. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) 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 balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

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 in terms of 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 balance sheet date. Income and expenses have been converted into HK$ 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 dealt with separately in the exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rates.

Other exchange differences arising from the translation of the net investment in foreign entities and of borrowings are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Revenue recognition

Revenue comprises the fair value for the sale of goods and services and the use by others of the Group's assets yielding interest, and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

(i) sale of goods are recognised upon transfer of significant risks and rewards of ownership to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(ii) interest income is recognised on a time proportion basis using the effective interest rate method; and

(iii) rental and sub-leasing rental income are recognised on a time proportion basis over the lease terms.

(f) Borrowing costs

All borrowing costs are expensed as incurred.

(g) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination or investment.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3(j)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Goodwill (Continued)

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group shall account for the combination using those provisional values. The Group shall recognise any adjustments to those provisional values within twelve months of the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognised or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognised from that date. Goodwill shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognised or adjusted. Comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting had been completed from the acquisition date. This includes any additional depreciation, amortisation or other profit or loss effect recognised as a result of completing the initial accounting.

(h) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets include topographical and geological survey drilling, exploratory drilling, sampling and trenching and expenditure incurred for the technical feasibility studies and incurred to secure further mineralisation in the mine ore. Expenditure incurred prior to obtaining the exploration and evaluation rights to explore an area is written off as incurred. Once the technical feasibility and commercial viability of extracting the mineral resource had been determined and the project reaches its development phase, exploration and evaluation costs capitalised are amortised. If exploration project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of exploration and evaluation assets may exceed its recoverable amount.

(i) Property, plant and equipment

Property, plant and equipment other than construction in progress ("CIP") are recognised at revalued amount, based on their fair value at the date of valuation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. Any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset revaluation equals its revalued amount.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property, plant and equipment (Continued)

Any revaluation surplus arising on revaluation of property, plant and equipment is credited to the "assets revaluation reserve" in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 3(j). To the extent that any decrease has previously been recognised in income statement, a revaluation increase is credited to income statement with the remaining part of the increase dealt with in the assets revaluation reserve. A decrease in the net carrying amount of property, plant and equipment arising from revaluation or impairment testing is charged against the assets revaluation reserve relating to the asset and any remaining decrease recognised in income statement.

Depreciation is calculated using the straight-line method to allocate the revalued amounts of the property, plant and equipment to their estimated residual values over their estimated useful lives, as follows:

Buildings	The shorter of the lease terms and/or 50 years
Plant and machinery	15 years
Leasehold improvements, furniture, office equipment and motor vehicles	4 to 10 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

The assets' estimated residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Any revaluation surplus remaining in equity is transferred to accumulated losses on disposals of the revalued assets.

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 the income statement during the financial period in which they are incurred.

CIP, which mainly represents leasehold improvements on buildings, is stated at cost less accumulated impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on CIP. CIP is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment testing of assets

Goodwill, property, plant and equipment, prepaid lease payments, exploration and evaluation assets and interests in subsidiaries are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets 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 unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as revaluation reserve decrease according to that policy (see note 3(i)). 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 from the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). At a result, some assets are tested individually for impairment and some are tested as cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, 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.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment testing of assets (Continued)

Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34 — Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

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

(k) Leases

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

(i) Assets acquired under a finance lease

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets is included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as finance lease payables.

Subsequent accounting for assets held under finance lease agreement corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed to finance costs.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases (Continued)

(ii) Operating lease charges as the lessee

(1) Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating lease. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line method over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period which they are incurred.

(2) Prepaid lease payments are up-front payments to acquire the long term interests in usage of land. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on the straight-line method over the lease term.

(iii) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in the income statement on a straight-line method over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling prices in the ordinary course of business less any applicable selling expenses.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial assets

The Group's financial assets include trade and bills receivables, other receivables and cash and cash equivalents.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, that is, the date that the Group commits to purchase or sell the asset. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

At each balance sheet date, loans and receivables are reviewed to determine whether there is any objective evidence of impairment. A provision for impairment loss is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

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

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial assets (Continued)

Impairment of financial assets (Continued)

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

(n) Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet 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 the income statement.

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

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

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

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

Changes in deferred tax assets or liabilities are recognized in the income statement, or in equity if they related to items that are charged or credited directly to equity.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

(q) Financial liabilities

The Group's financial liabilities include trade payables, other payables and accruals, amounts due to directors/minority shareholders, bank and other borrowings, finance lease payables and convertible bonds.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument and are derecognised when the obligations specified in the relevant contract are discharged or cancelled or expire. All interest related charges are recognised as an expense in financial costs in the income statement.

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 the income statement.

(i) Bank and other borrowings

Bank and other borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Bank and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Financial liabilities (Continued)

(ii) Trade payables, other payables and accruals, amounts due to directors/minority shareholders

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

(iii) Convertible bonds that contain an equity component

Convertible bonds that are convertible to share capital at the option of the holder, where, on conversion, the number of shares that would be issued 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 liability and equity components.

Convertible bonds issued by the Company that contain both 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 bonds and the fair value assigned to the liability component, representing the call option for conversion of the bonds into equity, is included in equity as convertible bond equity reserve.

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

When the bonds are 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 bonds are redeemed, the convertible bond equity reserve is released directly to accumulated losses.

(iv) Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 3(k)).

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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 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 balance sheet 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.

(s) Retirement benefits costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

(i) Defined contribution plans

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Pursuant to the relevant regulations of the government in the PRC, the subsidiaries operating in the PRC have participated in the retirement benefits scheme (the “RB Scheme”) operated by the respective local municipal governments in the PRC, whereby these subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the RB Scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries in the PRC. The only obligation of the Group with respect to the RB Scheme is to pay the ongoing required contributions under the RB Scheme. Contributions under the RB Scheme are charged to the income statement as incurred. There are no provisions under the RB Scheme whereby forfeited contributions may be used to reduce future contributions.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Retirement benefits costs and short term employee benefits (Continued)

(ii) Short-term employee benefits

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

(t) Share-based compensation

(i) The Group operates equity-settled share-based compensation plans for remuneration of its employees and directors.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

(ii) For other goods or services received by the Group in exchange for the grant of any share-based compensation, they are directly measured at the fair value of the goods or services received.

All share-based compensation is ultimately recognised as an expense in income statement/recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve). 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.

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

(u) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Segment reporting (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year. Unallocated item mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

(v) Related parties

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

(i) the party, directly, or indirectly through one or more intermediaries,

— controls, is controlled by, or is under common control with the Group;
— has an interest in the Group that gives it significant influence over the Group;
— has joint control over the Group;

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family or any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

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

Notes to the Financial Statements

For the year ended 31 December 2007

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:

(a) Depreciation

The Group depreciates its property, plant and equipment on a straight-line method over their estimated useful lives of 4 to 50 years. The estimated useful lives reflect the directors' estimate of the periods that the Group will derive future economic benefits from the use of the Group's property, plant and equipment.

(b) Fair value of property, plant and equipment

Property, plant and equipment, except construction in progress, are stated at fair value based on director's estimate and valuation performed by independent professional valuers. In determining the fair value, the directors and the valuers have used a method of valuation which involves certain estimates. The directors have exercised their judgement as to the estimates used, the appropriateness of method of valuation used and that the assumptions used therein are reflective of current market conditions.

(c) Impairment of receivables

The Group's management reviews receivables on a regular basis to determine if any provision for impairment is necessary. The impairment loss on receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. Management reassesses the impairment of receivables at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2007

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) Impairment of exploration and evaluation assets

The carrying value of exploration and evaluation assets is reviewed for impairment when events and changes in the estimated commercially viable quantities of mineral resources of the underlying mine indicate that the carrying value of the exploration and evaluation assets may not be recoverable. The Group considers no fact and circumstance occurred which would suggest that the carrying amount of exploration and evaluation assets may exceed its recoverable amount.

(e) Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/write-back in the period in which such estimate has been changed.

(f) Estimated impairment of goodwill

The Group tests on annual basis whether goodwill is impaired in accordance with the accounting policy stated in note 3(g). This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(g) Valuation of convertible bonds

The directors use their judgement in selecting an appropriate valuation technique for the Group's convertible bonds which are not quoted in the active market. Valuation techniques commonly used by market practitioners are applied. The fair value of the liability and equity components inside the convertible bonds are estimated by an independent professional valuer. The fair value of these components varies with different variables of certain subjective assumptions. Any change in these variables so adopted may materially affect the estimation of the fair value of these components.

Notes to the Financial Statements

For the year ended 31 December 2007

5. REVENUE AND OTHER INCOME

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

An analysis of the Group's revenue and other income is as follows:

	2007 HK$'000	2006 HK$'000
Revenue		
Sale of goods	**55,647**	26,523
Other income		
Interest income from loan receivables	**2,745**	85
Rental and sub-leasing rental income	**989**	1,312
Sundry income	**217**	1,079
Gain on disposal of a subsidiary (note (a))	**281**	—
Write back of deposit received (note (b))	**—**	5,000
	4,232	7,476

Notes:

(a) Gain on disposal of a subsidiary

On 30 May 2007, the Group disposed of its 100% equity interest in a subsidiary, South Hill International Enterprises Limited ("South Hill") for a consideration of HK$1. As at the date of the disposal, South Hill had a net liability of HK$281,000. Accordingly, a gain of HK$281,000 was recognised in the income statement during the year. Particulars of the disposal transaction are described in note 40.

(b) Write back of deposit received

In May 2006, the Company and GP Capital Limited ("GP Capital") entered into a subscription agreement for the placing of the Company's convertible notes in an aggregate principal amount of HK$40,000,000 (the "Placing"). In June 2006, the date of closing of the Placing was subsequently agreed by both parties to extend to not later than 30 June 2006. In return, GP Capital agreed to place a non-refundable amount of HK$10,000,000 with the Company which upon completion of the Placing would be used as part of the subscription monies for the convertible notes. An initial deposit of HK$5,000,000 was received by the Company prior to the expiry of the extended closing date.

Notes to the Financial Statements

For the year ended 31 December 2007

5. REVENUE AND OTHER INCOME (Continued)

Notes: (Continued)

(b) Write back of deposit received (Continued)

On 30 June 2006, the Company received two payments totalling HK$35,000,000 from GP Capital for the purpose of settling the remaining subscription monies. However, these payments were not honoured.

In September 2006, the Company notified GP Capital of the termination of the Placing. A legal proceeding was brought by the Company and based on the court order issued on 12 February 2007, GP Capital was required to honour the outstandings of HK$35,000,000.

In the opinion of the directors of the Company, after consulting with their legal advisor, the Placing had expired and the deposit received of HK$5,000,000 was non-refundable and accordingly this amount had been credited as income to the income statement for the year ended 31 December 2006.

Notes to the Financial Statements

For the year ended 31 December 2007

6. SEGMENT INFORMATION

Primary reporting format – business segments

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary of details of the business segments are as follows:

(a) the manufacturing of carpets segment represents the manufacturing and sale of carpets;

(b) the trading of carpets segment represents the trading of carpets of other renowned brand names;

(c) the exploration of mine (Commercial operations has not yet been commenced during the year); and

(d) the trading of goods.

There was no intersegment sale and transfer during the year (2006: Nil).

Notes to the Financial Statements

For the year ended 31 December 2007

6. SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	Manufacturing of carpets		Trading of carpets		Exploration of mine		Trading of goods		Consolidated	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Segment revenue:										
Sales to external customers	11,745	8,825	28,851	17,698	—	—	15,051	—	55,647	26,523
Segment results	(35,565)	(17,618)	(2,215)	(5,506)	(14,273)	—	(1,567)	—	(53,620)	(23,124)
Unallocated other operating income									2,611	5,059
Other unallocated expense									(24,317)	(27,943)
Finance costs									(3,235)	(149)
Loss before income tax									(78,561)	(46,157)
Income tax expense									—	—
Loss for the year									(78,561)	(46,157)
Segment assets	40,881	79,535	7,278	7,098	695,034	—	29,086	—	772,279	86,633
Unallocated assets	—	—	—	—	—	—	—	—	97,909	13,884
Total assets	40,881	79,535	7,278	7,098	695,034	—	29,086	—	870,188	100,517
Segment liabilities	15,760	18,445	22,556	14,987	147,382	—	13,569	—	199,267	33,432
Unallocated liabilities	—	—	—	—	—	—	—	—	46,293	4,284
Total liabilities	15,760	18,445	22,556	14,987	147,382	—	13,569	—	245,560	37,716
Amortisation of prepaid lease payments	119	112	—	—	—	—	180	—	299	112
Depreciation	6,406	6,152	173	312	144	—	136	—	6,859	6,464
Unallocated depreciation	—	—	—	—	—	—	—	—	1,542	983
	6,406	6,152	173	312	144	—	136	—	8,401	7,447
Capital expenditure										
Property, plant and equipment	30	56	24	17	9	—	—	—	63	73
Unallocated capital expenditure	—	—	—	—	—	—	—	—	5,113	3,945
	30	56	24	17	9	—	—	—	5,176	4,018
Exploration and evaluation assets	—	—	—	—	8,572	—	—	—	8,572	—

Notes to the Financial Statements

For the year ended 31 December 2007

6. SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	Manufacturing of carpets		Trading of carpets		Exploration of mine		Trading of goods		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Non cash expense										
Bad debts written off	–	–	–	65	–	–	–	–	–	65
Write-down of inventories to net realisable value	458	–	–	–	–	–	–	–	458	–
Provision for impairment loss of trade and other receivables	868	–	620	314	–	–	–	–	1,488	314
Deficits on revaluation of property, plant and equipment	26,976	–	–	–	–	–	–	–	26,976	–
Impairment loss of goodwill	–	–	–	–	–	–	754	–	754	–
Unallocated impairment loss of goodwill	–	–	–	–	–	–	–	–	327	–
	–	–	–	–	–	–	754	–	1,081	–
Unallocated gain on disposal of a subsidiary	–	–	–	–	–	–	–	–	281	–

Secondary reporting format — geographic segments

In determining the Group's geographical segments, revenues are attributable to the segments based on the location of customers, and assets are attributed to the segments based on the location of the assets.

	Hong Kong		Macau		PRC		Malaysia		USA		Japan		France		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Segment revenue																
Sales to external customers	12,830	12,471	440	866	20,525	9,386	795	–	6,005	3,800	673	–	14,379	–	55,647	26,523
Segment assets	700,880	20,982	–	–	169,308	79,535	–	–	–	–	–	–	–	–	870,188	100,517
Capital expenditure																
Property, plant and equipment	5,137	3,962	–	–	39	56	–	–	–	–	–	–	–	–	5,176	4,018
Exploration and evaluation assets	–	–	–	–	8,572	–	–	–	–	–	–	–	–	–	8,572	–
	5,137	3,962	–	–	8,611	56	–	–	–	–	–	–	–	–	13,748	4,018

Notes to the Financial Statements

For the year ended 31 December 2007

7. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on bank and other borrowings due within one year	140	15
Interest on other borrowings due within five years	—	111
Finance leases	30	23
Imputed interest on convertible bonds (note 30)	3,065	—
	3,235	149

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting) the following:

	2007 HK$'000	2006 HK$'000
Cost of inventories recognised as expense	43,483	19,878
— including write-down of inventories to net realisable value	458	—
Depreciation (note (a))		
— owned assets	8,298	7,371
— leased assets	103	76
	8,401	7,447
Amortisation of prepaid lease payments	299	112
Operating lease charges on land and buildings	3,474	3,093
Auditors' remuneration	809	534
Loss on disposals of property, plant and equipment**	490	2
Impairment loss of goodwill**	1,081	—
Bad debt written off**	—	65
Fair value of options granted to a third party for consultancy services rendered (note 34(a))	—	1,020
Fair value of options granted to directors and employees included in staff cost (note 13)	—	9,757
Provision for impairment loss of trade and other receivables**	1,488	314
Outgoings in respect of leasing properties	905	1,096
Under-provision of value added tax and the corresponding penalty arising in previous years** (note 25)	—	8,938
Exchange difference, net	320	(4)
Staff cost, including directors' emoluments (note 13)	19,495	24,243

Notes to the Financial Statements

For the year ended 31 December 2007

8. LOSS BEFORE INCOME TAX (Continued)

** Included in "Other operating expenses" on the face of the consolidated income statement.

(a) Depreciation expenses of HK$5,779,000 (2006: HK$5,538,000) has been expensed in cost of inventories sold and HK$2,622,000 (2006: HK$1,909,000) in administrative expenses.

9. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group had no estimated assessable profits arising in or derived from Hong Kong for both years. PRC foreign enterprise income tax has not been provided as the PRC subsidiaries incurred a loss for taxation purposes for both years.

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

	2007 HK$'000	2006 HK$'000
Loss before income tax	**(78,561)**	(46,157)
Tax at the applicable rates to profit in the tax jurisdictions concerned	**(19,423)**	(10,808)
Tax effect of non-taxable income	**(1,368)**	(1,406)
Tax effect of non-deductible expenses	**8,535**	6,922
Tax effect of unrecognised temporary differences	**9,341**	331
Tax effect of tax losses not recognised	**2,915**	4,961
Income tax expense	**—**	—

10. DIVIDENDS

The board of directors did not recommend any payment of dividends during the year (2006: Nil).

Notes to the Financial Statements

For the year ended 31 December 2007

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to equity holders of the Company of HK$79,129,000 (2006: HK$46,167,000), a loss of HK$151,756,000 (2006: HK$40,087,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to the equity holders of the Company of approximately HK$79,129,000 (2006: HK$46,167,000) and on the weighted average of ordinary shares of 838,233,260 (2006: 528,332,055) in issue.

No diluted loss per share is presented for the year ended 31 December 2007 as the outstanding convertible bonds and share options were anti-dilutive. No diluted loss per share was presented for the year ended 31 December 2006 as outstanding share options where anti-dilutive.

13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTOR'S EMOLUMENTS)

	2007	2006
	HK$'000	HK$'000
Wages, salaries and allowances	**19,172**	14,186
Share-based compensation	**—**	9,757
Pension costs — defined contribution plans	**323**	300
	19,495	24,243

Notes to the Financial Statements

For the year ended 31 December 2007

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	Notes	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Quarter expenses HK$'000	Contribution to retirement benefit scheme HK$'000	Total HK$'000
2007						
Executive directors						
Mr. Pang Man Kin, Nixon ("Mr. Pang")	(i)	—	1,012	333	7	1,352
Mr. Tsao Ke Wen, Calvin	(ii)	—	840	315	7	1,162
Mr. Lam Shu Chung	(iii)	—	332	—	7	339
Mr. Law Fei Shing		—	989	—	12	1,001
Mr. So Chi Keung		—	125	—	6	131
Mr. Fok Po Tin	(iv)	—	—	—	—	—
Mr. Leung Kai Hung	(iv)	—	40	—	2	42
Mr. Tam Owen	(v)	—	682	—	7	689
Mr. Yeung Delon	(v)	—	129	—	6	135
Dr. Yuen Clement Ming Kai	(vi)	—	532	—	—	532
Non-executive directors						
Dr. Ma Chung Wo, Cameron	(vii)	—	—	—	—	—
Mr. Lam Shing Tsun, Edmond	(vi)	15	—	—	—	15
Independent non-executive directors						
Mr. Poon Chiu	(viii)	16	—	—	—	16
Mr. Lum Pak Sum		60	—	—	—	60
Mr. Li Chak Hung	(viii)	18	—	—	—	18
Mr. Sun Tak Keung	(ix)	22	—	—	—	22
Mr. Wan Hon Keung	(ix)	22	—	—	—	22
		153	4,681	648	54	5,536

Notes to the Financial Statements

For the year ended 31 December 2007

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

Notes

(i) Resigned on 11 July 2007.

(ii) Resigned on 17 October 2007.

(iii) Resigned on 20 July 2007.

(iv) Appointed on 1 March 2007.

(v) Appointed on 18 June 2007.

(vi) Appointed on 5 November 2007.

(vii) Resigned on 20 November 2007.

(viii) Resigned on 4 April 2007.

(ix) Appointed on 4 April 2007.

	Fees HK$'000	Salaries, allowances and benefits in kind* HK$'000	Quarter expenses HK$'000	Contribution to retirement benefit scheme HK$'000	Total HK$'000
2006					
Executive directors					
Mr. Pang	—	2,325	600	12	2,937
Mr. Tsao Ke Wen, Calvin	—	1,177	605	12	1,794
Mr. Lam Shu Chung	—	1,465	—	12	1,477
Mr. Law Fei Shing	—	1,605	—	12	1,617
Mr. So Chi Keung	—	1,090	—	11	1,101
Non-executive director					
Dr. Ma Chung Wo, Cameron	—	86	—	—	86
Independent non-executive directors					
Mr. Poon Chiu	60	86	—	—	146
Mr. Lum Pak Sum	60	86	—	—	146
Mr. Li Chak Hung	66	86	—	—	152
	186	8,006	1,205	59	9,456

* This includes the share options granted in 2006 attributable to the directors.

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For the year ended 31 December 2007

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

During the year, no share option was granted to the directors of the Company to subscribe for ordinary shares of the Company (2006: 22,500,000).

During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office (2006: Nil).

During the year, the Group received written consent from an ex-director of the Company to waive the remuneration of HK$304,000 (2006: Nil) payable to that ex-director.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year included 4 directors (2006: 5) and their emoluments are reflected in the above analysis. Details of the emoluments of the remaining 1 individual (2006: Nil) during the year, which fell within the emolument band of HK$2,000,001 — HK$2,500,000, are as follows:

	2007 **HK$'000**
Basic salaries, housing benefits, other allowances and benefits in kind	**2,200**

During the year, no emoluments were paid by the Group to the above highest paid individual as an inducement to join or upon joining the Group, or as compensation for loss of office (2006: Nil).

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For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold, improvements furniture, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2006					
Valuation	22,118	62,931	4,976	—	90,025
Accumulated depreciation	(942)	(12,752)	(1,834)	—	(15,528)
Net book amount	21,176	50,179	3,142	—	74,497
Year ended 31 December 2006					
Opening net book amount	21,176	50,179	3,142	—	74,497
Additions	—	—	4,018	—	4,018
Disposals	—	—	(16)	—	(16)
Exchange differences	847	2,035	18	—	2,900
Depreciation	(490)	(5,538)	(1,419)	—	(7,447)
Closing net book amount	21,533	46,676	5,743	—	73,952
At 31 December 2006					
Valuation	23,002	65,141	9,073	—	97,216
Accumulated depreciation	(1,469)	(18,465)	(3,330)	—	(23,264)
Net book amount	21,533	46,676	5,743	—	73,952

Notes to the Financial Statements

For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Group (Continued)

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold, improvements furniture, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2007					
Opening net book amount	21,533	46,676	5,743	—	73,952
Additions	—	—	5,176	—	5,176
Acquisition of subsidiaries (note 39)	—	1,892	2,882	6,784	11,558
Disposals	—	—	(505)	—	(505)
Disposals of a subsidiary (note 40)	—	—	(373)	—	(373)
Reversal of asset revaluation reserve	—	(9,726)	—	—	(9,726)
Deficits on revaluation	(3,578)	(23,398)	—	—	(26,976)
Exchange differences	1,375	2,979	70	—	4,424
Depreciation	(520)	(5,814)	(2,067)	—	(8,401)
Closing net book amount	**18,810**	**12,609**	**10,926**	**6,784**	**49,129**
At 31 December 2007					
Valuation	20,607	29,454	15,922	—	65,983
Cost	—	—	—	6,784	6,784
Accumulated depreciation	(1,797)	(16,845)	(4,996)	—	(23,638)
Net book amount	**18,810**	**12,609**	**10,926**	**6,784**	**49,129**

An independent valuation of certain of the Group's buildings, plant and machinery was performed by LCH (Asia-Pacific) Surveyors Limited ("LCH"), an independent firm of chartered surveyors during the year. Valuation was made on the basis of depreciated replacement cost method for buildings and plant and machinery. Buildings with carrying value of HK$18,810,000 and plant and machinery with carrying value of HK$11,824,000 were stated at fair values as determined by the valuer, resulting in deficits on revaluation of HK$3,578,000 for buildings and of HK$23,398,000 for plant and machinery. The directors of the Company based on their past experience are of the view that the carrying value of the remaining property, plant and equipment, except for CIP which is stated at cost, as at 31 December 2007 approximates their fair values.

Notes to the Financial Statements

For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Group (Continued)

Had the Group's property, plant and equipment been measured on a historical cost basis, their carrying amount would have been as follows:

	2007 HK$'000	2006 HK$'000
Buildings	**18,810**	21,533
Plant and machinery	**12,609**	41,813
Leasehold improvements, furniture, office equipment and motor vehicles	**10,926**	5,743

Included in property, plant and equipment are amounts of approximately HK$474,000 (2006: HK$380,000) held under a finance lease and the related accumulated depreciation is approximately HK$261,000 (2006: HK$82,000).

(b) Company

	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000
At 1 January 2006	
Valuation	444
Accumulated depreciation	(105)
Net book amount	339
Year ended 31 December 2006	
Opening net book amount	339
Additions	3
Disposals	(8)
Depreciation	(73)
Closing net book amount	261
At 31 December 2006	
Valuation	438
Accumulated depreciation	(177)
Net book amount	261
Year ended 31 December 2007	
Opening net book amount	261
Additions	—
Disposals	(2)
Depreciation	(102)
Closing net book amount	157
At 31 December 2007	
Valuation	435
Accumulated depreciation	(278)
Net book amount	157

Notes to the Financial Statements

For the year ended 31 December 2007

16. PREPAID LEASE PAYMENTS — GROUP

These represent its interests in leasehold land and land use rights in the PRC, held on leases between 10 and 50 years. Changes to the carrying amounts presented in the balance sheet can be summarised as follows:

	2007 HK$'000	2006 HK$'000
Opening net carrying amount	**4,912**	4,831
Acquisition of a subsidiary (note 39(a))	**9,000**	—
Exchange differences	**313**	193
Amortisation of prepaid operating lease payment	**(299)**	(112)
Closing net carrying amount	**13,926**	4,912

As at 31 December 2007, the Group has not yet obtained the relevant land use rights certificate for the prepaid lease payments with the carrying amount of approximately HK$8,820,000 (2006: Nil). The Group's legal advisors have confirmed that the Group has the rightful and equitable title to use the leasehold land.

17. INTERESTS IN SUBSIDIARIES — COMPANY

	Notes	2007 HK$'000	2006 HK$'000
Investments			
— Unlisted shares, at cost	(a)	**76,432**	76,432
— Arising from share-based compensation	(b)	**5,754**	5,754
		82,186	82,186
Due from subsidiaries	(c)	**864,500**	149,183
Due to a subsidiary	(c)	**(8)**	—
Loan to a subsidiary	(d)	**9,996**	—
		956,674	231,369
Provision for impairment losses		**(295,279)**	(170,183)
		661,395	61,186

Notes to the Financial Statements

For the year ended 31 December 2007

17. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

The movement in the provision for impairment of interest in subsidiaries is as follows:

	2007 HK$'000	2006 HK$'000
At 1 January	**(170,183)**	(139,059)
Additions	**(125,096)**	(31,124)
At 31 December	**(295,279)**	(170,183)

Notes:

(a) Particulars of the principal subsidiaries as at 31 December 2007 are as follows:

Name	Place of incorporation/ establishment	Paid-up share/registered capital	Percentage of equity attributable to the Company	Principal activities and place of operation
Directly held				
Jackley China Limited	British Virgin Islands	Ordinary US$100	100%	Investment holding Hong Kong
Aurora International Enterprises Limited ("Aurora International")	British Virgin Islands	Ordinary US$1	100%	Investment holding Hong Kong
Smooth Way International Limited	British Virgin Islands	Ordinary US$1	100%	Investment holding Hong Kong

Notes to the Financial Statements

For the year ended 31 December 2007

17. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Notes: (Continued)

(a) Particulars of the principal subsidiaries as at 31 December 2007 are as follows: (Continued)

Name	Place of incorporation/ establishment	Paid-up share/registered capital	Percentage of equity attributable to the Company	Principal activities and place of operation
Indirectly held				
Hui Zhou Orient Carpet Manufacturing Co., Ltd ("Hui Zhou Orient Carpet")	PRC	US$4,940,000	100%	Manufacture and sale of carpets PRC
International Carpet Co., Limited* ("International Carpet")	Hong Kong	Ordinary HK$2,000,000	51%	Trading of carpets Hong Kong
Orient Finance (Hong Kong) Limited*	Hong Kong	Ordinary HK$10,000	100%	Provision of finance Hong Kong
Orient Carpet Manufacturing (Hong Kong) Limited* ("Orient Carpet")	Hong Kong	Ordinary HK$10,000	100%	Investment holding and trading of carpets Hong Kong
Aurora Logistic Capital Assurance Limited ("Aurora Logistic Capital")	Hong Kong	Ordinary HK$1	100%	Investment holding Hong Kong
Aurora Logistic Finance Group Inc ("Aurora Logistic Finance")	British Virgin Islands	Ordinary US$1	100%	Investment holding Hong Kong
Aurora Logistic Software Development Limited	Hong Kong	Ordinary HK$1	100%	Logistic Hong Kong
Wise Mount Management Limited ("Wise Mount")	Hong Kong	Ordinary HK$1	100%	Investment holding Hong Kong
Go On Foundate Company Limited ("Go On")	Hong Kong	Ordinary HK$2	100%	Dormant Hong Kong

Notes to the Financial Statements

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17. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Notes: (Continued)

(a) Particulars of the principal subsidiaries as at 31 December 2007 are as follows: (Continued)

Name	Place of incorporation/ establishment	Paid-up share/registered capital	Percentage of equity attributable to the Company	Principal activities and place of operation
Indirectly held				
Wellspark Holdings Limited	Hong Kong	Ordinary HK$1	100%	Investment holding Hong Kong
Hebei Da Sheng Warranty Company Limited ("Da Sheng")	PRC	US$7,054,000**	51%	Dormant PRC
Win Alliance Development Limited ("Win Alliance")	Hong Kong	Ordinary HK$1,000,000	70%	Trading of goods Hong Kong
唐山勝盟工藝製毯有限公司 ("唐山勝盟")	PRC	US$61,800	70%	Manufacture of carpets PRC
Kanson Development Limited	British Virgin Islands	Ordinary US$200	51%	Investment Holding Hong Kong
Hong Kong Forest Source Mining Industry Company Limited*	Hong Kong	Ordinary HK$70,000,000	51%	Investment Holding Hong Kong
Beijing Forest Source Mining Industry Developing Company Limited	PRC	RMB14,760,000***	51%	Mineral dressing and trading of mineral resources PRC
Qinghai Forest Source Mining Industry Developing Company Limited	PRC	HK$36,300,000	51%	Exploration of mine PRC
626 Limited	Hong Kong	Ordinary HK$1	100%	Dormant Hong Kong

Notes to the Financial Statements

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17. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Notes: (Continued)

(a) Particulars of the principal subsidiaries as at 31 December 2007 are as follows: (Continued)

* Subsidiaries audited by Grant Thornton Hong Kong

** This subsidiary was established in the PRC on 26 September 2006 for an operating period of 30 years with a registered capital of US$12,500,000. As at 31 December 2007, approximately US$2,305,000 (equivalent to approximately HK$18,000,000) of its registered capital has been paid up and the Group therefore had an outstanding investment in capital of US$4,070,000 (equivalent to approximately HK$31,746,000) in this subsidiary.

*** This subsidiary was established in the PRC on 13 August 2007 for an operating period of 50 years with a registered capital of RMB15,000,000. As at 31 December 2007, approximately RMB14,760,000 (equivalent to approximately HK$15,702,000) of its registered capital has been paid up and the Group therefore had an outstanding investment in capital of RMB240,000 (equivalent to approximately HK$255,000) in this subsidiary.

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.

(b) The balance represents the share-based compensation expenses arising from the grant of share options of the Company to employees of subsidiaries in exchange for their services offered to these subsidiaries.

(c) Amounts due from/(to) subsidiaries are unsecured, interest-free and are not expected to be repaid within the next twelve months. These balances are classified as non-current assets accordingly.

(d) There are unsecured loans provided to its subsidiary, Kanson and are repayable within 24 months from the drawdown date in November and December 2007. Interest is charged on the outstanding balance at the rate of HIBOR plus 1% per annum.

Notes to the Financial Statements

For the year ended 31 December 2007

18. GOODWILL — GROUP

	2007 HK$'000	2006 HK$'000
At 1 January		
Gross carrying amount	71,500	71,500
Accumulated impairment	(71,500)	(71,500)
Net carrying amount	—	—
Opening net carrying amount	—	—
Acquisition of subsidiaries (note 39)	612,566	—
Impairment losses	(1,081)	—
Closing net carrying amount	611,485	—
At 31 December		
Gross carrying amount	684,066	71,500
Accumulated impairment	(72,581)	(71,500)
Net carrying amount	611,485	—

The carrying amount of goodwill at 31 December 2007 represents the excess of the cost of the investment in Kanson over the Group's interest in the net fair value of Kanson's identifiable assets, liabilities and contingent liabilities at the completion of the acquisition of Kanson made during the year (note 39(c)). Details of this transaction are set out in the Company's circular dated 15 October 2007.

As at 31 December 2007, QFSMI, a 51% subsidiary of Kanson, held an exploration license for a mine located in Inner Mongolia, China.

The carrying amount of goodwill has been tested for impairment and its recoverable amount was determined based on value-in-use calculations, performed by an independent firm of professional valuers, LCH, followed by an extrapolation of discounted cash flows, covering a detailed thirteen-year forecast, as approved and considered suitable for the mining industry by the directors. The key assumptions adopted include the mine reserve based on a technical assessment report by Watts, Griffs and McOuat Limited and its expectations for the market development and that the Group is able to obtain the mining right of the underlying mine from the relevant authorities in PRC in 2008.

Notes to the Financial Statements

For the year ended 31 December 2007

18. GOODWILL — GROUP (Continued)

The discount rate and parameters used are shown as below:

Discount rate	16.4%
Inflation rate	2%
Initial life of the project	13 years

The above goodwill was determined based on initial accounting for the business combination with Kanson and was determined only provisionally as at 31 December 2007, details of which are set out in note 39(c).

The Group's management is not aware of any other probable changes that would necessitate changes in its key estimates which will result in the carrying amount of goodwill exceeding its recoverable amount.

The goodwill of approximately HK$1,081,000 arising from the acquisitions of Go On (note 39(b)) and Win Alliance (note 39(a)) has been fully impaired during the year based on its cashflow projection and the Company's expectations and past experience. The related impairment loss of HK$1,081,000 (2006: Nil) was included under "Other operating expenses" in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2007

19. EXPLORATION AND EVALUATION ASSETS — GROUP

	2007 HK$'000	2006 HK$'000
At 1 January	—	—
Acquisition of a subsidiary (note 39(c))	19,064	—
Additions	8,572	—
At 31 December	27,636	—

The breakdown of exploration and evaluation assets are as follows:

	2007 HK$'000	2006 HK$'000
Exploration license	1,277	—
Technical feasibility studies	3,099	—
Exploratory drilling	18,085	—
Sampling	3,173	—
Construction in progress	2,002	—
Closing net carrying amount	27,636	—

Relevant key metallurgical tests on samples from the mine located in Inner Mongolia, China have been completed. The test results had been reviewed by an external panel of PRC experts and were considered to be appropriate and sufficient for use in the feasibility studies of a project for the mine.

20. INVENTORIES — GROUP

	2007 HK$'000	2006 HK$'000
Raw materials	1,869	1,773
Work in progress	51	—
Finished goods	2,234	2,260
	4,154	4,033

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21. TRADE AND BILLS RECEIVABLES — GROUP

The Group normally allows trading credit terms ranging from 30 to 120 days to established customers. Each customer has a maximum credit limit. Trade debtors with balances that are aged over 120 days are required to settle all outstanding balances before any further credit is granted. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. Ageing analysis of trade and bills receivables, net of provision, as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	2007 HK$'000	2006 HK$'000
1-90 days	**7,871**	3,567
91-120 days	**5,899**	153
121-365 days	**3,449**	471
Over 1 year	**2,677**	2,050
	19,896	6,241
Less: Provision for impairment of trade receivables	**(2,677)**	(1,737)
Trade and bills receivables — net	**17,219**	4,504

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

The movement in the provision for impairment of trade receivables is as follows:

	2007 HK$'000	2006 HK$'000
At 1 January	**(1,737)**	(1,423)
Additions	**(940)**	(314)
At 31 December	**(2,677)**	(1,737)

At 31 December 2007, trade receivables of the Group amounting to approximately HK$2,677,000 (2006: HK$1,737,000) were individually determined to be impaired. The individually impaired receivables related to the customers that were in financial difficulties and management assessed only a portion of the receivables is expected to be recovered. The Group did not hold any collateral over these balances.

Notes to the Financial Statements

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21. TRADE AND BILLS RECEIVABLES — GROUP (Continued)

Ageing analysis of trade and bills receivables that are not impaired are as follows:

	2007 HK$'000	2006 HK$'000
Neither past due nor impaired	9,193	3,567
Past due of less than 120 days but not impaired	5,899	153
Past due of 120 to 365 days but not impaired	2,127	471
Past due of more than 365 days but not impaired	—	313
	17,219	4,504

Receivables that were neither past due nor impaired related to wide range of customers for whom there were no recent history of default.

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 still considered fully recoverable. The Group does not held any collateral over these balances.

Included in trade and bills receivables are the following amounts denominated in a currency other than the functional currency of the entity to which it relates:

	2007 HK$'000	2006 HK$'000
US dollar ("USD")	11,720	—
Renminbi ("RMB")	985	638

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**640**	501	**51**	30
Deposits	**5,511**	6,240	**15**	15
Other receivables (Note)	**89,763**	1,849	**280**	3
	95,914	8,590	**346**	48

Note:

Included in other receivables of the Group at 31 December 2007 are loan receivables of HK$77,015,000 due from independent third parties. Loan receivables of HK$29,643,000 are unsecured, interest-bearing at prime rate plus 1% per annum and due within one month when the repayment notice is sent. In addition, loan receivables of HK$47,372,000 are unsecured, bear annual fixed interest ranging from 8.00% to 11.23% and due one year from the date of borrowing (i.e. from April 2008 to December 2008). The directors consider the transactions were entered into at arm's length terms and the carrying amounts of the loan receivables approximate to their fair values at the balance sheet date. These loan receivables that were not impaired related to individuals who had no recent financial difficulty.

23. CASH AND CASH EQUIVALENTS

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

(a) Group

	2007	2006
	HK$'000	HK$'000
Cash at banks and in hand	**50,725**	776
Bank overdrafts (note 28)	**—**	(5)
Cash and cash equivalents	**50,725**	771

Included in the cash at banks and in hand of the Group is HK$2,032,000 (2006: HK$344,000) of bank balances denominated in RMB placed with the banks in the PRC. RMB is not a freely convertible currency; however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks authorised to conduct foreign exchange business in the PRC.

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23. CASH AND CASH EQUIVALENTS (Continued)

(b) Company

	2007 HK$'000	2006 HK$'000
Cash at banks and in hand	**5,688**	9

24. TRADE PAYABLES — GROUP

Ageing analysis of the trade payables as at the balance sheet date, based on the receipts of goods purchased, is as follows:

	2007 HK$'000	2006 HK$'000
1-90 days	**9,017**	5,926
91-120 days	**5,696**	2,603
121-365 days	**2,306**	967
Over 1 year	**2,685**	227
	19,704	9,723

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the entity to which it relates:

	2007 HK$'000	2006 HK$'000
USD	**11,521**	—
RMB	**4,315**	3,689

Trade payables are non-interest-bearing and are normally settled on 60-day terms.

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For the year ended 31 December 2007

25. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits received	**6,822**	5,429	**—**	—
Other payables and accruals (Note)	**36,200**	20,182	**6,891**	2,167
	43,022	25,611	**6,891**	2,167

Note:

Included in the balance as at 31 December 2006 were installation cost and interest payable to 深圳華興建設有限公司 ("華興") in relation to the legal proceedings undertaken by 華興 against Hui Zhou Orient Carpet, a wholly owned subsidiary of the Company at the Peoples Court of the Hui Yang District, Hui Zhou City, Guangdong Province. The amounts claimed under the proceedings were HK$1,520,000 and interest payable of HK$1,288,000, both of which were fully provided in the Group's financial statements as at 31 December 2006 and settled during the year ended 31 December 2007.

Included in the balance as at 31 December 2007 is a payable of HK$8,793,000 (2006: 8,938,000) which represents the unsettled value added tax and the corresponding penalty payable estimated and billed by the PRC local tax authority during the year ended 31 December 2006. No further penalty was imposed by the PRC local tax authority during the year.

26. AMOUNTS DUE TO DIRECTORS

Amounts due to directors by the Group and the Company were unsecured, interest-free and repayable on demand. The balances were fully repaid during the year.

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For the year ended 31 December 2007

27. FINANCE LEASE PAYABLES — GROUP

An analysis of the total future minimum lease payments under a finance lease and their present values is as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**102**	101	**91**	76
In the second year	**102**	101	**96**	76
In the third to fifth years, inclusive	**34**	208	**34**	158
Total minimum finance lease payments	**238**	410	**221**	310
Future finance charges on finance lease payments	**(17)**	(100)		
Total net finance lease payables	**221**	310		
Less: Amounts classified as current liabilities	**(91)**	(76)		
Amounts included under non-current liabilities	**130**	234		

The Group entered into a finance lease on a motor vehicle for a lease period of 5 years. The lease does not have an option to renew or any contingent rental provisions. Under the lease term, the legal title of the motor vehicle will be transferred to the Group at nil consideration on expiry of the lease period.

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28. BANK AND OTHER BORROWINGS — GROUP

	2007 HK$'000	2006 HK$'000
Other loans, unsecured and repayable on demand	**5,340**	—
Bank overdrafts, unsecured (note 23(a))	**—**	5
	5,340	5

The Group's other loans bear interest at the fixed rate of 12% per annum and is payable with one-month notice by the lender.

29. AMOUNTS DUE TO MINORITY SHAREHOLDERS

Amounts due are unsecured, interest free and are not repayable within the next twelve months from the balance sheet date.

30. CONVERTIBLE BONDS — GROUP AND COMPANY

On 5 November 2007, the Company issued zero coupon convertible bonds (the "Convertible Bonds") in the principal amount of HK$365,000,000 as part of the consideration for the acquisition of Kanson. The Convertible Bonds bear no interest with maturity date on 4 November 2012 (the "Maturity Date") and are convertible into shares of the Company at the conversion price of HK$0.60 per share (subject to the standard adjustment clauses relating to share sub-division, share consolidation, capitalization issues and rights issues) at any time after the issue date. At Maturity Date, the Company may consider liaising with the holders of the Convertible Bonds to extend the Maturity Date of the Convertible Bonds or the Company may repay the Convertible Bonds at any price as to be agreed between the Company and the holders of the Convertible Bonds.

The fair value of the liability component, included in the Convertible Bonds, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in the convertible bond equity reserve in shareholders' equity.

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For the year ended 31 December 2007

30. CONVERTIBLE BONDS — GROUP AND COMPANY (Continued)

The Convertible Bonds recognised in the balance sheet are calculated as follows:

	2007 **HK$'000**	2006 HK$'000
Proceeds of issue	**365,467**	—
Equity component	**(189,421)**	—
Liability component on initial recognition	**176,046**	—
Exercise of the Convertible Bonds	**(39,440)**	—
Imputed interest expense (note 7)	**3,065**	—
Liability component at 31 December	**139,671**	—

The fair value of the liability component of the Convertible Bonds at the date of issue amounted to approximately HK$176 million.

Interest expense on the bonds is calculated using the effective interest rate method by applying interest rate of 15.70% per annum to the liability component.

During the year, 136,000,000 ordinary shares were issued in aggregate, at the conversion price of HK$0.60 per share, to the bond holders upon the conversion of the Convertible Bonds. As a result, there was an increase in the share capital and share premium of HK$1,360,000 (note 32(f)) and HK$80,240,000 respectively.

Subsequent to the balance sheet date, another 100,000,000 ordinary shares were issued in aggregate to the bond holders upon the conversion of the Convertible Bonds. As a result, there is a further increase in the share capital and share premium of HK$1,000,000 and HK$59,000,000 respectively. This conversion has not yet been reflected in the financial statements for the year ended 31 December 2007.

Notes to the Financial Statements

For the year ended 31 December 2007

31. DEFERRED TAX — GROUP AND COMPANY

At the balance sheet date, unrecognised deferred tax assets are follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**45,188**	36,880	**—**	—

Deferred tax assets have not been recongnised in respect of the above tax losses as these were incurred by the companies that have been loss-making for some time.

The unrecognised tax losses may be carried forward indefinitely except for the losses of HK$36,061,000 (2006: HK$31,735,000) which will expire as follows:

	2007	2006
	HK$'000	HK$'000
2007	**—**	2,397
2008	**1,206**	1,206
2009	**9,667**	9,667
2010	**6,117**	6,117
2011	**12,348**	12,348
2012	**6,723**	—
	36,061	31,735

At 31 December 2007, there is no significant unrecognised deferred tax liability (2006: Nil).

Notes to the Financial Statements

For the year ended 31 December 2007

32. SHARE CAPITAL

	Notes	2007 Number of shares '000	2007 HK$'000	2006 Number of shares '000	2006 HK$'000
Authorised:					
Ordinary shares of HK$0.01 each		**20,000,000**	**200,000**	20,000,000	200,000
Issued and fully paid:					
At 1 January, ordinary shares of HK$0.01 each		**551,900**	**5,519**	525,200	5,252
Shares issued on 15 February 2007	(a)	**18,000**	**180**	—	—
Shares issued on 16 March 2007	(b)	**87,000**	**870**	—	—
Shares issued on 25 June 2007	(c)	**135,000**	**1,350**	—	—
Shares issued on 2 August 2007	(d)	**135,000**	**1,350**	—	—
Share issued on 5 November 2007	(e)	**270,000**	**2,700**	—	—
Exercise of convertible bonds and issue of shares	(f)	**136,000**	**1,360**	—	—
Exercise of share options and issue of shares	(g)	**25,820**	**258**	26,700	267
At 31 December ordinary shares of HK$0.01 each		**1,358,720**	**13,587**	551,900	5,519

Notes to the Financial Statements

For the year ended 31 December 2007

32. SHARE CAPITAL (Continued)

Notes:

(a) On 15 February 2007, an aggregate of 18,000,000 new ordinary shares were issued to Ms. Sheng De Cruz Li to complete the consideration balance of the sale and purchase agreement (to acquire 70% equity interest in Win Alliance) dated 8 December 2006. The directors of the Company considered HK$0.40 per share is the fair value with reference to the published price of the share on that day. These issued shares rank pari passu with other shares in issue in all respects.

(b) On 16 March 2007, the Company entered into a placement agreement with Enlighten Securities Limited ("Enlighten Securities") as placing agent, pursuant to which an aggregate of 87,000,000 new ordinary shares were placed by Enlighten Securities on behalf of the Company, on a fully underwritten basis at the price of HK$0.308 per placing share with six independent investors. Immediately after the completion of this placing, the Company issued 87,000,000 new ordinary shares at HK$0.308 per share to six independent investors on 16 March 2007. These issued new ordinary shares rank pari passu with other shares in issue in all respects.

(c) On 25 June 2007, the Company entered into another placement agreement with Enlighten Securities as placing agent, pursuant to which an aggregate of 135,000,000 new ordinary shares were placed by Enlighten Securities on behalf of the Company, on a fully underwritten basis at the price of HK$0.50 per placing share with six independent investors. Immediately after the completion of this placing, the Company issued 135,000,000 new ordinary shares at HK$0.50 per share to six independent investors on 25 June 2007. These issued new ordinary shares rank pari passu with other shares in issue in all respects.

(d) On 2 August 2007, the Company entered into a placing agreement with Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan") as placing agent, pursuant to which an aggregate of 135,000,000 new ordinary shares were placed by Guotai Junan on behalf of the Company, on a fully underwritten basis at a price of HK$0.69 per placing share with at least six independent investors. Immediately after the completion of this placing, the Company issued 135,000,000 new ordinary shares at HK$0.69 per share on 2 August 2007. These issued new ordinary shares rank pari passu with other shares in issue in all respects.

(e) On 5 November 2007, the Company issued 270,000,000 new ordinary shares to Ms. Leung Lai Ching Margaret to complete the balance of the conditional share acquisition agreement dated 9 July 2007 to acquire 51% equity interest in Kanson. The directors of the Company considered HK$0.65 per share is the fair value with reference to the published price of the share on that day. These issued new ordinary shares rank pari passu with other shares in issue in all respects.

(f) On 5 November 2007, the Company issued the Convertible Bonds of HK$375,000,000 at the conversion price of HK$0.60 per share. During the year, 136,000,000 ordinary shares in aggregate were issued, at the conversion price of HK$0.60 per shares, to the bond holders upon the conversion of the Convertible Bonds (note 30). As a result, there was an increase in the share capital and share premium of HK$1,360,000 and HK$80,240,000 respectively. These issued new ordinary shares rank pari passu with other shares in issue in all respects.

Notes to the Financial Statements

For the year ended 31 December 2007

32. SHARE CAPITAL (Continued)

Notes: (Continued)

(g) During the year, subscription rights attached to the 25,820,000 (2006: 26,700,000) share options of the Company (note 34(b)) were exercised at subscription prices of HK$0.365, HK$0.35 and HK$0.54 per share (2006: HK$0.365 and HK$0.35 per share). As a result, the Company allotted, issued and fully paid 25,820,000 (2006: 26,700,000) new ordinary shares of HK$0.01 each. These issued new ordinary shares rank pari passu with other shares in issue in all respect. A share premium of HK$10,528,000 (2006: HK$9,198,000) was arose from the issue and allotment of shares. In addition an amount of HK$5,910,000 (2006: HK$4,867,000) was transferred from share option reserve to share premium.

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein during the year are presented in the consolidated statement of changes in equity.

The share premium account includes

(i) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group reorganisation in 2001, over the nominal value of the share capital of the Company issued in exchange therefore;

(ii) the premium arising from the capitalisation issue in previous years;

(iii) issue of shares of the Company at a premium net of the transaction costs associated with the issue of shares; and

(iv) amount transferred from other equity reserves upon exercise of share option and conversion of convertible bond.

Notes to the Financial Statements

For the year ended 31 December 2007

33. RESERVES (Continued)

(b) Company

	Share premium HK$'000	Capital reserves HK$'000	Convertible bonds equity reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006	85,981	140,667	—	—	(149,068)	77,580
Share options granted (note 34(a))	—	—	—	11,190	—	11,190
Share options cancelled	—	—	—	(413)	—	(413)
Exercise of share options and issue of shares (note 32(g))	14,065	—	—	(4,867)	—	9,198
Net loss for the year	—	—	—	—	(40,087)	(40,087)
At 31 December 2006 and 1 January 2007	100,046	140,667	—	5,910	(189,155)	57,468
Issue of convertible bonds (note 30)	—	—	189,421	—	—	189,421
Issue of shares	363,696	—	—	—	—	363,696
Issue of shares on conversion of convertible bonds (note 32(f))	80,240	—	(42,160)	—	—	38,080
Exercise of share options and issue of shares (note 32(g))	16,438	—	—	(5,910)	—	10,528
Net loss for the year	—	—	—	—	(151,756)	(151,756)
At 31 December 2007	560,420	140,667	147,261	—	(340,911)	507,437

Details of the share premium account of the Company are set out in note 33(a) above.

Notes to the Financial Statements

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34. SHARE-BASED COMPENSATION

The Company has a share option scheme, which was adopted on 6 June 2002 and , unless otherwise cancelled or amended, will remain in force for 10 years from that date (the "Scheme"), for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, independent non-executive directors (the "INED(s)"), other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any person or entity that provides research, development or other technological support to the Group and any minority shareholder in the Company's subsidiaries.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is equivalent to 10% of the shares of the Company in issue at any time.

Pursuant to the extraordinary general meeting passed on 10 March 2006, the general scheme limit of the Company's share option scheme was reset to 52,520,000 shares, representing 10% of the Company's issued share capital on the date of the meeting, with the passing of ordinary resolution, which allows the Company to grant further options carrying the rights to subscribe for a maximum of 52,520,000 shares.

Pursuant to the extraordinary general meeting passed on 31 October 2007, the Company's share option scheme was reset to 95,272,000 shares, representing 10% of the Company's issued share capital on the date of the meeting, with the passing of ordinary resolution, which allows the Company to grant further options carrying the rights to subscribe for a maximum of 95,272,000 shares.

The maximum number of shares issuable under the Scheme to each eligible participant within any 12-month period, is limited to 1%, of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the INEDs, in addition, any share options granted to a substantial shareholder or an INED of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

Notes to the Financial Statements

For the year ended 31 December 2007

34. SHARE-BASED COMPENSATION (Continued)

The exercise price of the share options is determinable by the directors, but may not be less than the higher of:

(a) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options;

(b) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and

(c) the nominal value of the shares.

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

Movements of the share options granted by the Company under the Scheme are as follows:

	2007 Number	2006 Number
At 1 January	**25,820,000**	—
Granted (note (a))		
— on 7 March 2006	**—**	32,000,000
— on 2 May 2006	**—**	14,200,000
— on 27 November 2006	**—**	8,720,000
	25,820,000	54,920,000
Cancelled	**—**	(2,400,000)
Exercised (note (b))	**(25,820,000)**	(26,700,000)
At 31 December	**—**	25,820,000

Notes to the Financial Statements

For the year ended 31 December 2007

34. SHARE-BASED COMPENSATION (Continued)

Notes:

(a) Share options granted vest immediately. The fair value of the 54,920,000 share options granted in 2006 was approximately HK$11,190,000 which was recognised as to HK$10,170,000 as employee benefits expenses and other administrative expenses of HK$1,020,000 in the consolidated income statement for the year ended 31 December 2006. The amount of HK$11,190,000 had been credited to share option reserve. No liabilities had been recognised due to these equity settled share-based payment transactions. There were no share options being granted in 2007.

The fair values of share options granted to employees of HK$10,170,000 in 2006 were determined by an independent valuer using the Black-Scholes Model (the "Model"). Details of the inputs to the Model are as follows:

	Share options granted on 7 March 2006 at exercise price of HK$0.35	Share options granted on 2 May 2006 at exercise price of HK$0.365	Share options granted on 27 November 2006 at exercise price of HK$0.54
Expected volatility (%)	79%	94%	108%
Risk-free interest rate (%)	4.207%	4.216%	3.657%
Dividend yield (%)	0.00%	0.00%	0.00%

The fair value of share options granted to a third party of HK$1,020,000 for consultancy services rendered in 2006 was determined based on the invoiced amount of service provided.

Notes to the Financial Statements

For the year ended 31 December 2007

34. SHARE-BASED COMPENSATION (Continued)

Notes: (Continued)

(b) In respect of the share options exercised during the year, the weighted average share price of the Company at the dates of exercise ranged from HK$0.35 to HK$0.87 per share (2006: from HK$0.5 to HK$0.61 per share). The share options exercised during the year resulted in the issue of 25,820,000 (2006: 26,700,000) ordinary shares of the Company (note 32(g)).

As at 31 December 2007, the Group has no outstanding share options and exercise prices are as follows:

	2007		2006	
	Number	**Weighted average exercise price per share HK$**	Number	Weighted average exercise price per share HK$
Exercise period:				
10 March 2006 to 9 March 2011	—	—	10,900,000	0.350
2 May 2006 to 9 March 2011	—	—	6,200,000	0.365
27 November 2006 to 9 March 2011	—	—	8,720,000	0.540
At 31 December	—	—	25,820,000	0.418

At 31 December 2006, the Company had 25,820,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 25,820,000 additional ordinary shares of the Company including additional share capital of HK$258,000 and share premium of HK$10,529,000.

Subsequent to the balance sheet date and up to the date of these financial statements, no additional share option were granted.

Notes to the Financial Statements

For the year ended 31 December 2007

35. OPERATING LEASE COMMITMENTS

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**6,199**	3,474
In the second to fifth years, inclusive	**5,759**	521
	11,958	3,995

The Group leases certain leasehold land and buildings under operating leases. The leases run for an initial period of two to three years, with an option to renew the lease and renegotiate the terms at expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

The Company did not have any significant lease commitments at 31 December 2006 and 2007.

36. OPERATING SUB-LEASE ARRANGEMENTS

At 31 December 2007, the Group had total future minimum lease receipts under non-cancellable operating lease falling due as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**—**	822
In the second to fifth years, inclusive	**—**	—
	—	822

The Group sub-leased its property under operating lease arrangements which run for an initial period of one to two years, with an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and the respective tenants. The terms of the leases generally also require the tenants to pay security deposits.

The Company did not have any significant lease arrangements at 31 December 2006 and 2007.

Notes to the Financial Statements

For the year ended 31 December 2007

37. COMMITMENTS

As at 31 December 2007, the Group had the following outstanding capital commitments:

(a) The Group entered into agreements with various parties in relation to exploration and evaluation expenditures to be capitalised. As at 31 December 2007, the total contracted amount was HK$5,110,000 (2006: Nil).

(b) In December 2005, the Group entered into an acquisition agreement with China National Materials Storage and Transportation Guangzhou Corp (the "Vendor") to purchase the Logistic and Financial Management System (the "System") at a total consideration of RMB6,000,000. Subsequently in November 2006, the consideration was revised from HK$6,000,000 to HK$3,000,000 and this would be settled in cash based on the revised terms. As at 31 December 2006, deposits totalling of HK$2,000,000 was paid and these were included as "deposits" under non-current assets in the consolidated balance sheet as at 31 December 2006. As at 31 December 2006, capital commitment arising from this acquisition was approximately HK$1,000,000 in cash. As the purchase of the System was completed during the year ended 31 December 2007, the deposits of HK$2,000,000 was transferred to property, plant and equipment and thus there was no commitment noted for the System as at 31 December 2007.

(c) In December 2006, the Group entered into an acquisition agreement to acquire 70% equity interest in Win Alliance, which is engaged in trading of goods at a total consideration of HK$12,200,000 and has a wholly-owned subsidiary, namely 唐山勝盟, whose principal activity is manufacturing of carpets. The consideration was satisfied (i) as to HK$7,200,000 by issuing 18,000,000 ordinary shares of the Company at HK$0.40 per share which was considered by the directors of the Company as the fair value with reference to the published price of the share on date of issue, and (ii) as to HK$5,000,000 for cash. As at 31 December 2006, a refundable deposit of HK$1,750,000 was paid and this was included as "deposits" under non-current assets in the consolidated balance sheet as at 31 December 2006. Accordingly, as at 31 December 2006, capital commitment arising from this acquisition was HK$3,250,000 in cash and issue of 18,000,000 consideration shares of the Company. As the transaction was completed on 2 March 2007 (note 39(a)), the deposit was transferred to the cost of investment and thus there was no commitment in this regard as at 31 December 2007.

38. RELATED PARTY TRANSACTIONS

Apart from the balances and transactions with related parties disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

(a) Orient Carpet, a wholly-owned subsidiary entered into a sub-letting agreement with Orient Securities Limited, a company in which a director of the Company had beneficial interest, to sublet part of the office at 8/F, Luk Kwok Centre, Wanchai, Hong Kong to Orient Securities Limited at the monthly rental of HK$30,338, totalling to HK$180,028 for the year (2006: HK$364,056).

(b) During the year, the Group acquired 50% equity interest in Go On from Mr. So Chi Keung, a director of the Company, for a consideration of HK$1.

Notes to the Financial Statements

For the year ended 31 December 2007

38. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel

Included in staff costs are key management personnel compensation (including directors' emoluments) and comprises the following categories:

	2007 HK$'000	2006 HK$'000
Short term employee benefits	7,682	5,520
Contribution to retirement benefit scheme	55	59
Share-based payment	—	5,129
	7,737	10,708

39. BUSINESS COMBINATIONS

(a) Win Alliance

On 15 February 2007, the Group completed the acquisition of 70% equity interest in Win Alliance, as described in notes 18, 32(a) and 37(c), through Wise Mount, a 100% indirectly-owned subsidiary of the Company, at the consideration comprising of cash of HK$5,000,000 and consideration shares of HK$7,200,000. Win Alliance's principal activity is trading of goods and has a wholly-owned subsidiary, namely 唐山勝盟, whose principal activity is manufacturing of carpets. Goodwill arising from acquisition has been fully impaired during the year.

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

	HK$'000
Purchase consideration	
— Cash paid	5,000
— Fair value of shares issued (note 32(a))	7,200
Total purchase consideration	12,200
Fair value of net identifiable assets acquired	(11,446)
Goodwill (note 18)	754

Notes to the Financial Statements

For the year ended 31 December 2007

39. BUSINESS COMBINATIONS (Continued)

(a) Win Alliance (Continued)

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

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Property, plant and equipment	8,676	8,676
Prepaid lease payments	9,000	9,000
Trade receivables	2,499	2,499
Prepayments, deposits and other receivables	1,633	1,633
Cash at banks and in hand	1	1
Trade payables	(2,274)	(2,274)
Deposits received, other payables and accruals	(3,184)	(3,184)
Net assets	16,351	16,351
Minority interests (30%)	(4,905)	
Net identifiable assets acquired	11,446	
Purchase consideration settled in cash		(5,000)
Cash at banks and in hand in the subsidiaries acquired		1
Cash outflow on acquisition		(4,999)

Since the acquisition, Win Alliance and its subsidiary contributed a revenue and a loss of HK$14,378,000 and HK$835,000 respectively to the Group for the period ended 31 December 2007.

Had the acquisition been taken place at 1 January 2007, the revenue and the loss of the Group for the year ended 31 December 2007 would have been approximately HK$58,047,000 and HK$78,551,000 respectively. The proforma information is for illustrative purposes only and is not necessarily indicative of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007 nor are they intended to be projection of future results.

Notes to the Financial Statements

For the year ended 31 December 2007

39. BUSINESS COMBINATIONS (Continued)

(b) Go On

As described in note 18 to the financial statements, on 29 March 2007, the Group acquired 100% equity interest in Go On at a cash consideration of HK$2 through a wholly-owned subsidiary, namely Aurora International. Goodwill arising from this acquisition has been fully impaired during the year.

Details of net identifiable liabilities acquired and goodwill are as follows:

	HK$'000
Fair value of net identifiable liabilities acquired	**327**
Total purchase consideration — Cash paid	 **—**
Goodwill (note 18)	**327**

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

	Fair value HK$'000	**Acquiree's carrying amount HK$'000**
Property, plant and equipment	284	284
Deposits received, other payables and accruals	(313)	(313)
Finance lease payables	(298)	(298)
Net identifiable liabilities acquired	(327)	(327)

	HK$'000
Purchase consideration in cash	—
Cash at banks and in hand in the subsidiary acquired	—
Cash outflow on acquisition	—

Notes to the Financial Statements

For the year ended 31 December 2007

39. BUSINESS COMBINATIONS (Continued)

(b) Go On (Continued)

Since the acquisition, Go On contributed no revenue and a loss of HK$103,000 to the Group for the period ended 31 December 2007.

Had the acquisition been taken place at 1 January 2007, the revenue and the loss of the Group for the year ended 31 December 2007 would have been approximately HK$55,647,000 and HK$78,593,000 respectively. The proforma information is for illustrative purposes only and is not necessarily indicative of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007 nor are they intended to be projection of future results.

(c) Kanson

As described in notes 18, 30 and 32(e) to the financial statements, on 5 November 2007, the Group entered into a sale and purchase agreement for the acquisition of 51% equity interest in Kanson from Ms. Leung Lai Ching Margaret. Kanson also has 100% equity interest in HKFSMI, BFSMI and QFSMI, the principal activity of all of which is the exploration of mine.

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

	HK$'000
Purchase consideration:	
— Cash paid	**100,000**
— Fair value of convertible bonds issued (note 30)	**365,467**
— Fair value of shares issued (note 32(e))	**175,500**
Total purchase consideration	**640,967**
Fair value of net identifiable assets acquired	**(29,482)**
Goodwill (note 18)	**611,485**

According to the sale and purchase agreement, another zero-coupon convertible bonds with face value of HK$400,000,000 will be issued on the fifth business day following the date of receipt of mining license in respect of the underlying mine. As at 31 December 2007, Kanson and its subsidiaries were still in the progress of obtaining the mining license. Thus convertible bonds have not been issued and not included in the purchase consideration above. The fair value of the mining right has also not been included in the above net identifiable assets acquired. The above purchase consideration and the fair value of net identifiable assets acquired were determined provisionally and are subject to change upon the receipt of the mining license; thus the goodwill was also determined provisionally.

Notes to the Financial Statements

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39. BUSINESS COMBINATIONS (Continued)

(c) Kanson (Continued)

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

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Property, plant and equipment	2,598	2,598
Exploratory and evaluation assets	19,064	19,064
Prepayments, deposits and other receivables	15,270	15,270
Cash at banks and in hand	20,875	20,875
Net identifiable assets	57,807	57,807
Minority interests (49%)	(28,325)	
Net identifiable assets acquired	29,482	
Purchase consideration settled in cash		(100,000)
Cash at banks and in hand in the subsidiaries acquired		20,875
Cash outflow on acquisition		(79,125)

The goodwill was only determined provisionally and it largely represents the fair value of the mining right which has not been recognised as at 31 December 2007 due to the reason stated above.

Since the acquisition, Kanson and its subsidiaries contributed no revenue and a loss of HK$3,007,000 to the Group for the period ended 31 December 2007.

Had the acquisition been taken place at 1 January 2007, the revenue and the loss of the Group for the year ended 31 December 2007 would have been approximately HK$55,647,000 and HK$89,816,000 respectively. The proforma information is for illustrative purposes only and is not necessarily indicative of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007 nor are they intended to be projection of future results.

Notes to the Financial Statements

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40. DISPOSAL OF A SUBSIDIARY

As mentioned in note 5(a) to the financial statements, on 30 May 2007, the Group disposed of its 100% equity interest in South Hill for a consideration of HK$1. Particulars of the disposal transaction are as follows:

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	373
Prepayment, deposits and other receivables	143
Cash at banks and in hand	3
Finance lease payables	(272)
Deposits received, other payables and accruals	(528)
	(281)
Gain on disposal of a subsidiary	281
Total consideration	—
Satisfied by cash	—

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of South Hill is as follows:

	HK$'000
Total consideration	—
Cash at banks and in hand disposed of	(3)
Net cash outflow in respect of the disposal of a subsidiary	(3)

Notes to the Financial Statements

For the year ended 31 December 2007

41. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risk, including interest rate risk and foreign currency exchange risk, credit risk and liquidity risk. Generally, the Group employs conservative strategies on its risk management. The Group's exposure to market risk is kept at a minimum level. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

(a) Credit risk

The carrying amounts of trade receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The carrying amounts of these financial assets presented in balance sheet are net of impairment losses, if any. The Group minimises its exposure to the credit risk by rigorously selecting the counterparties, performing ongoing credit evaluation on the financial conditions of its debtors and tightly monitoring the ageing of the receivables. Follow-up actions are taken in case of overdue balances on an ongoing basis. In addition, management monitors and reviews the recoverable amount of the receivables individually or collectively at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, is also limited because all the Group's cash and cash equivalents are deposited with the major banks located in Hong Kong and the PRC.

As the Group trades only with recognised and creditworthy counterparties, there is no requirement for collateral.

(b) Foreign currency risk

The sales and purchases of the Group are predominantly in USD, RMB and HK$. The Group does not hedge its foreign currency risks. Exposures to currency exchange rates arise from certain of the Group's cash and bank balances, trade receivables, trade payables, other receivables and other payables which are denominated in USD and RMB respectively. The Group does not use derivative financial instruments to hedge its foreign currency risk. The Group reviews its foreign currency exposures regularly and does not consider its foreign exchange risk to be significant.

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For the year ended 31 December 2007

41. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Foreign currency risk (Continued)

The following table details the Group's exposure at the balance sheet date to foreign currency risk from the above stated items denominated in a currency other than the functional currency of relevant group companies.

	Group	
	2007	2006
	HK$'000	HK$'000
Cash and cash equivalents denominated in		
— USD	**13,964**	14
— RMB	**1,860**	344
Trade and bills receivables denominated in		
— USD	**11,720**	—
— RMB	**985**	638
Trade payables denominated in		
— USD	**11,521**	—
— RMB	**4,315**	3,689
Other receivables denominated in RMB	**11,330**	541
Other payables denominated in RMB	**16,828**	14,434

Apart from the above, all the Group's financial assets and liabilities are denominated in HK$.

By assessing foreign currency risk on cash and bank balances, trade receivables and payables and, other receivables and payables, the effect arising from a reasonably possible change in the exchange rates of HK$ against USD and RMB in the next twelve months was not material to the loss for the year and accumulated losses at each of the balance sheet date, on the basis that all other variables remain constant.

Notes to the Financial Statements

For the year ended 31 December 2007

41. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Interest rate risk

The interest rates and terms of repayment of the Group's bank and other borrowings are disclosed in note 28. As the Group has no significant variable interest-bearing financial liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rate. The directors of the Company consider the Group's exposures to cash flow interest rate risk on bank balances and other receivables with variable interest bearing, as follows:

Sensitivity analysis

The Group is exposed to changes in market interest rates through its cash at banks and other receivables, which are subject to variable interest rates.

The following table indicates the approximate change in the Group's loss after tax and accumulated losses in response to reasonably possible changes in the interest rate, to which the Group has significant exposure at the balance sheet date.

	2007		2006	
	Increase/ (decrease) in interest rate	**Effect on loss after tax and accumulated losses HK$'000**	Increase/ (decrease) in interest rate	Effect on loss after tax and accumulated losses HK$'000
Cash at banks	**1%**	**409**	1%	5
Cash at banks	**(1%)**	**(409)**	(1%)	(5)
Other receivables	**1%**	**245**	1%	—
Other receivables	**(1%)**	**(245)**	(1%)	—

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 1% increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

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For the year ended 31 December 2007

41. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their fair value.

(e) Liquidity risk

The Group maintains a level of cash and cash equivalents assessed as adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on internally generated funding and borrowings as significant sources of liquidity.

The maturity profile of the Group's and the Company's financial liabilities as at the balance sheet dates, based on the contractual undiscounted payments, was as follows:

Group

	2007		
	Within 6 months HK$'000	**6 to 12 months HK$'000**	**1 to 5 years HK$'000**
Trade payables	**19,704**	**—**	**—**
Other payables and accruals	**36,200**	**—**	**—**
Finance lease payables	**45**	**46**	**130**
Bank and other borrowings	**5,340**	**—**	**—**
Amounts due to minority shareholders	**—**	**—**	**37,602**
Convertible bonds	**—**	**—**	**139,671**
	61,289	**46**	**177,403**

	2006		
	Within 6 months HK$'000	6 to 12 months HK$'000	1 to 5 years HK$'000
Trade payables	9,723	—	—
Other payables and accruals	20,182	—	—
Amounts due to directors	1,143	—	—
Finance lease payables	38	38	234
Bank and other borrowings	5	—	—
Amounts due to minority shareholders	—	—	924
	31,091	38	1,158

Notes to the Financial Statements

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41. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Liquidity risk (Continued)

Company

	2007		
	Within 6 months HK$'000	**6 to 12 months HK$'000**	**1 to 5 years HK$'000**
Other payables and accruals	**6,891**	**—**	**—**
Convertible bonds	**—**	**—**	**139,671**
	6,891	**—**	**139,671**

	2006		
	Within 6 months HK$'000	6 to 12 months HK$'000	1 to 5 years HK$'000
Other payables and accruals	2,167	—	—
Amount due to a director	100	—	—
	2,267	—	—

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41. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(f) Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at 31 December 2007 and 2006 are categorised as follows. See notes 3(m) and 3(q) for explanations about how the categorisation of financial instruments affects their subsequent measurement.

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Financial assets (Current)				
Loans and receivables				
— Cash at banks and in hand	**50,725**	776	**5,688**	9
— Trade and bills receivables	**17,219**	4,504	**—**	—
— Other receivables	**89,763**	1,849	**280**	3
	157,707	7,129	**5,968**	12
Financial liabilities at amortised cost				
Current				
Trade payables	**19,704**	9,723	**—**	—
Other payables and accruals	**36,200**	20,182	**6,891**	2,167
Amounts due to directors	**—**	1,143	**—**	100
Finance lease payables	**91**	76	**—**	—
Bank and other borrowings	**5,340**	5	**—**	—
Non-current				
Finance lease payables	**130**	234	**—**	—
Amounts due to minority shareholders	**37,602**	924	**—**	—
Convertible bonds	**139,671**	—	**139,671**	—
	238,738	32,287	**146,562**	2,267

Notes to the Financial Statements

For the year ended 31 December 2007

42. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

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

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

(c) 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. The Group currently does not adopt any formal dividend policy. Management regards total equity less convertible bond — equity components as capital, for capital management purpose. The amount of capital as at 31 December 2007 amounted to approximately HK$477,367,000 (2006: HK$62,801,000), which management considers as optimal having considered the projected capital expenditures and the forecast strategic investment opportunities.

43. POST BALANCE SHEET EVENTS

(a) Disposal of Orient Carpet

On 16 January 2008, the Group entered into a non-binding Memorandum of Understanding (the "MOU") such that the entire issued share capital of a wholly-owned subsidiary, namely Orient Carpet (which has a direct wholly-owned subsidiary, Hui Zhou Orient Carpet), is to be sold to an independent third party for a consideration at HK$19,300,000 except for all current assets and all liabilities recorded in the books of Orient Carpet and Hui Zhou Carpet which shall remain with the Group. Both Orient Carpet and Hui Zhou Orient Carpet are principally engaged in manufacturing and sale of carpets.

The impact of this transaction will be accounted for as discontinued operations in the financial statements in 2008 in accordance with HKFRS 5. The results of Orient Carpet and Hui Zhou Orient Carpet for the year ended 31 December 2006 and 2007 have been included in trading of carpets and manufacturing carpets segments respectively (note 6).

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43. POST BALANCE SHEET EVENTS (Continued)

(b) Disposal of International Carpet

On 10 March 2008, a Share Sale Agreement was entered into between the Group and another independent third party such that all 51% equity interest currently held by the Group in International Carpet is to be sold for a consideration of HK$200,000. International Carpet is principally engaged in trading carpets of other renowned brand names. Details of this transaction have been set out in the Company's circular dated 21 April 2008.

The impact of this transaction will be accounted for as discontinued operations in the financial statements in 2008 in accordance with HKFRS 5. The results of International Carpet for the year ended 31 December 2006 and 2007 have been included in trading of carpets (note 6).

(c) Subscription of shares in Aurora Logistic Finance

On 10 March 2008, the Company and certain of its subsidiaries, Capital Gain Assets Management Limited ("Capital Gain"), a company in which Mr. Pang has beneficial interests, and Mr. Pang entered into a subscription agreement (the "Subscription Agreement"). In consideration of assumption by Capital Gain of the obligation of the Group to contribute approximately US$4,070,000 (equivalent to approximately HK31,746,000) (note 17) to the registered capital of Da Sheng, the Group agreed to allot and issue 804 ordinary shares of Aurora Logistic Finance, a subsidiary of the Company, of US$1.00 each to Capital Gain. As a result, the Company's interest in Aurora Logistic Finance shall be diluted from 100% to 19.6%. The directors consider the transaction was entered into by the Group on normal commercial terms and on arm's length basis. Details of this transaction have been set out in the Company's circular dated 21 April 2008.

(d) Acquisition of 49% equity interest in Kanson

On 8 April 2008, the Group entered into a sale and purchase agreement with Ms. Leung Lai Ching Margaret to acquire the remaining 49% equity interest in Kanson for a total consideration of HK$960,780,000. The total consideration will be settled by the issue of zero-coupon convertible bonds with face value of HK$580,000,000 which will be issued upon completion of the transaction and by the issue of zero-coupon convertible bonds with face value of HK$380,780,000 which will be issued on the fifth business day following the date of receipt of mining license in respect of the underlying mine in the PRC.