森源鈦礦控股有限公司*

XIAN YUEN TITANIUM RESOURCES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 353)

a form to Success

Annual Report 2008

* For identification purpose only

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CORPORATE INFORMATION

Board of Directors

Executive Directors
Mr. Tam Owen *(Chairman)*
Mr. Law Fei Shing *(Chief Executive Officer)*
Mr. Chan Sung Wai

Non-Executive Director
Mr. Lam Shing Tsun Edmond

Independent Non-Executive Directors
Mr. Lum Pak Sum
Mr. Sun Tak Keung
Mr. Chow Pui Fung

Audit Committee

Mr. Lum Pak Sum *(Chairman)*
Mr. Sun Tak Keung
Mr. Chow Pui Fung

Remuneration Committee

Mr. Tam Owen *(Chairman)*
Mr. Lum Pak Sum
Mr. Sun Tak Keung
Mr. Chow Pui Fung

Nomination Committee

Mr. Tam Owen *(Chairman)*
Mr. Lum Pak Sum
Mr. Sun Tak Keung
Mr. Chow Pui Fung

Company Secretary

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

Authorised Representatives

Mr. Tam Owen
Mr. Law Fei Shing

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

Room 1102B, 11th Floor
Tower I, Admiralty Centre
18 Harcourt Road
Hong Kong

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands

Legal Advisers to the Company

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

As to Cayman Islands Law:
Conyers Dills & Pearman
2901 One Exchange Square
8 Connaught Place
Central, Hong Kong

Auditors

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

Principal Banker

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

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 2008.

Business Review

For the year ended 31 December 2008, the Group recorded revenue from its continuing operations of approximately HK$12.8 million (2007: HK$28.9 million (restated)) and net loss from its continuing operations of approximately HK$319 million (2007: HK$41 million (restated)). The operating loss of the Group from its continuing operations was substantially increased by approximately HK$258 million as compared to last year which included the impairment loss of goodwill of HK$253 million and the loss of HK$11.0 million on deemed disposal of Aurora Logistic Finance Group Inc, Hebei Da Sheng Warranty Company Limited and its subsidiaries. Moreover, the discontinued operations of carpet manufacturing and trading of goods incurred losses of HK$15.5 million and HK$14.2 million respectively.

Carpet Manufacturing and Distribution

During the year, there was a rise in manufacturing costs of products and an intense market competition on global products market. As a result, the Group recorded a net loss of its business. Furthermore, as the carpet manufacturing and some of carpet trading subsidiaries had been suffering loss for few years, the Group decided to dispose these subsidiaries to reduce the operating loss. We will still focus on carpet trading through a new wholly-owned subsidiary in coming years. Details of discontinued operation businesses and disposal of subsidiary are set out in the notes 11, 26 and note 38(b) to the financial statement respectively.

Logistics and Financial Business

In May 2008, the Group disposed 80.4% interest of Aurora Logistic Finance Group Inc. ("**Aurora Logistic Finance**"), which included the interest of Hebei Da Sheng Warranty Company Limited ("**Hebei Da Sheng**"). The Directors considered that the disposal of partial interest in logistics and financial business would allow resources relocation to enhance the efficiency in a more potential project in the mining sector. The Board will depend on the return of such investment to determine whether the Group will maintain the remaining 19.6% interest of Aurora Logisitc Finance and review the performance and results of Hebei Da Sheng from time to time. Details of disposed interest in Aurora Logistic Finance is set out in the note 39 to the financial statements.

Trading of Goods

The trading of goods business had been suffering loss for past years and had not been performing at forecast level. The Group does not foresee a significant turnaround in the future. It is more commercially favourable to dispose these subsidiaries preventing any additional loss which may incur. Details of the discontinued operation businesses are set out in the notes 11 and 26 to the financial statements.

Xiaohongshan (Little Red Mountain)

In July 2008, the Group acquired an additional 49% equity interests of Kanson Development Limited ("**Kanson**") from Ms. Leung Lai Ching, Margaret through Smooth Way International Limited, a wholly-owned subsidiary of the Company. After the completion, Kanson is currently a wholly-owned subsidiary of the Company which indirectly holds an exploration license of a mineral property in 2km by 1km rectangular area of Little Red Mountain located in Inner Mongolia ("**Xiao Hong Shan Project**"). Details of the acquisition is set out in the note 37(c) and (d) to the financial statements.

Current status of Xiao Hong Shan Project

Application for the registration of the mineral resources of Xiao Hong Shan Project has been submitted to the Ministry of Land and Resources of the PRC. The application has been preliminarily approved pending some revisions to the supporting documents and the issuance of the official approval document regarding the actual quantity of resources. Given the global financial turmoil and the drastic decline in global commodity prices, the Company has decided to slow down the integrated utilization plan and the license application for the Xiao Hong Shan Project until further funding is secured.

Impairment of goodwill

As a result of world-wide commodities price has been decreased during the second half year of 2008, the valuation of target mine — first portion in Xiao Hong Shan Project recorded a substantially decrease at the year end. The Group would impair the goodwill of Xiao Hong Shan Project and reflects the impairment loss in the financial statement.

Future Plan and Prospects

The recent significant price decline of global commodities will have negative impacts on the realisable selling price of titanium, iron and other products of Xiao Hong Shan Project while infrastructure costs and mineral resources tax payable to the Ministry of Land Management will remain largely unchanged. This puts more pressure on the near term cash requirement. The current global financial turmoil limits the ways of fund raising. Even though most of the relevant exploration tests for the reserves of Xiao Hong Shan Project have approached the final stage, the Company believes it is financially prudent to slow down the progress of the project until the Company secures new funds to meet the future funding requirement of the project.

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 staffs of the Group for their loyalty, commitment and diligence in the past year.

By order of the Board

Tam Owen
Chairman

Hong Kong, 24 April 2009

Financial Summary

The Group's turnover for the year ended 31 December 2008 was approximately HK$12.8 million. The administrative expenses for the year ended 31 December 2008 were approximately HK$40 million, which represented a decrease of 11% compared to the expenses incurred last year.

The loss attributable to equity holders of the Company for the year ended 31 December 2008 was increased to approximately HK$341 million, as compared to HK$79 million in the previous corresponding year. The loss was mainly resulted from the recognition of (i) non-cash imputed interest of approximately HK$21.9 million; (ii) loss on discontinued operations of approximately HK$29.7 million and (iii) impairment loss of goodwill of approximately HK$253 million.

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 2008, the Group has total assets of approximately HK$841 million (2007: HK$870 million), total liabilities of approximately HK$257 million (2007: HK$246 million), indicating a gearing ratio 0.31 (2007: 0.28) on the basis of total liabilities over total assets. The current ratio of the Group for the year was 1.46 (2007: 2.47).

Charges on Assets

As at 31 December 2008, the Group had no interest-bearing bank borrowings and assets which was pledged. (2007: Nil).

Contingent Liabilities

As at 31 December 2008, the Group did not have any significant contingent liabilities.

Employee Information

As at 31 December 2008, the Group employed approximately 165 full-time employees (2007: 191), mostly at the Group's subsidiary factory for manufacturing carpet. 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 2008 (2007: Nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Tam Owen, aged 51, was appointed as Executive Director and Chairman in 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 16 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. He is also a chairman of the remuneration committee and nomination committee of the Company.

Mr. Law Fei Shing, aged 49, was appointed as Executive Director and Company Secretary in August 2004 and as Chief Executive Officer in November 2007. Mr. Law is a practicing Certified Public Accountant in Hong Kong. He is also a member of American Institute of Certified Public Accountants (AICPA), USA and an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Law has over 19 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), a company listed on the Main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), for a period from 6 September 2005 to 25 October 2006 and an executive director and a company secretary of Heng Xin China Holdings Limited (stock code: 8046), a company listed on the GEM board of the Stock Exchange, for a period from 5 June 2007 to 16 October 2007. Currently, he is an executive director of Bestway International Holdings Limited (stock code: 718), a company listed on the Main board of the Stock Exchange.

Mr. Chan Sung Wai, aged 61, was appointed as Executive Director in November 2008. He has extensive experience in trading, real property and shipping industries. He also has extensive experience in financial and media business. He has been working for a number of years on the major media companies in Hong Kong, and is responsible for covering, editing and writing commentaries. He is also a chief editor of the petroleum magazine and has comprehensive knowledge on the media industry in the PRC. Mr. Chan was an executive director of Grand Field Group Holdings Limited (stock code: 115), a company listed on the Main board of the Stock Exchange, for a period from 14 November 2007 to 18 June 2008. Currently, he is an executive director of Asia Resources Holdings Limited (stock code: 899) and Karce International Holdings Company Limited (stock code: 1159), both companies are listed on the Main board of the Stock Exchange. Also, Mr. Chan is an employee of Mr. Chim Pui Chung's office of member of Legislative Council; whereas Mr. Chim Pui Chung is the beneficial owner of the Company's substantial shareholder, namely Golden Mount Limited.

Non-Executive Director

Mr. Lam Shing Tsun Edmond, aged 59, was appointed as Non-Executive Director in 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 26 years' extensive experience in insurance and management.

Independent Non-Executive Directors

Mr. Lum Pak Sum, aged 48, was appointed as Independent Non-Executive Director in 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 20 years' experience in the financial field, the money market and capital market. Mr. Lum was an independent non-executive director of Grand Field Group Holdings Limited (stock code: 115) for a period from July 2004 to May 2008, Golife Concepts Holdings Limited (stock code: 8172) for a period from September 2005 to December 2008 and Heng Xin China Holdings Limited (stock code: 8046) for a period from June 2007 to November 2008. Currently, he is an independent non-executive director of Beauforte Investors Corporation Limited (stock code: 21). These companies are listed on the Stock Exchange. He is also a chairman of the audit committee and a member of remuneration committee and nomination committee of the Company.

Mr. Sun Tak Keung, aged 44, was appointed as Independent Non-Executive Director in April 2007. He is currently a director of a Hong Kong private limited company which is principally engaged in marketing and trading of daily consumable goods in Hong Kong and overseas. Mr. Sun was an executive director of Polyard Petroleum International Group Limited (stock code: 8011), a company listed on the GEM board of the Stock Exchange, for a period from March 2002 to November 2007. Currently, he is an independent non-executive director of Huscoke Resources Holdings Limited (stock code: 704), a company listed on the Main board of the Stock Exchange. He is also a member of the audit committee, remuneration committee and nomination committee of the Company.

Mr. Chow Pui Fung, aged 68, was appointed as independent non-executive Director in November 2008. He is a merchant and has been in the business of securities investments, shipping and import & export for years. Mr. Chow was an independent non-executive director of Neptune Group Limited (stock code: 70), a company listed on the Main board of the Stock Exchange, for a period from 13 March 2003 to 5 June 2007. He is also a member of the audit committee, remuneration committee and nomination committee of the Company.

Senior Management

Mr. Chen Jin Ping, aged 46, 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 21 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 71, 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 41 years of experience in geological exploration and assessment of mineral deposits at various locations in northern China.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Song Yun Xia, aged 36, has performed financial and accounting duties in Qinghai Forest Source Mining Industry Developing Company Limited since February 2004. She was appointed director of Qinghai Forest Source Mining Industry Developing Company Limited in January 2007. She holds a professional certificate in financial and accounting in Qinghai University and has ten year experience in financial and accounting field. Prior to join the Group, she has been responsible for financial and accounting function in various companies in the PRC.

Mr. Cheang Fong Wa, aged 56, is an assistant to general manager of Hui Zhou Orient Carpet Manufacturing Co., Ltd. ("**Hui Zhou Orient**"). 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. Subsequently, the Company disposed Orient Carpet Manufacturing (HK) Limited and Hui Zhou Orient in March 2009.

Mr. Qi Qi Yong, aged 34, was graduated from Jiangxi University, PRC. He has more than 8 years accounting experience. He is a qualified accountant (PRC). He joined Hui Zhou Orient in July 2004. He is the chief accountant of Hui Zhou Orient. Subsequently, the Company disposed Orient Carpet Manufacturing (HK) Limited and Hui Zhou Orient in March 2009.

The Company is committed to maintaining a high standard of corporate governance, holding the beliefs of transparency, honesty and accountability. The board of directors of the Company (the "**Board**") considers that sound corporate management and governance practices are essential to the Company's healthy growth under all business environments. Therefore, we continuously review and improve our corporate governance standards to ensure maximum compliance with the relevant laws and codes.

Corporate Governance Practices

During the year under review, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "**Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), save for a slight deviation from Code Provision A.4.1 (tenure of non-executive directors) of the Code as explained in the relevant paragraph below.

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. Following specific enquiries made, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year.

Board of Directors

The Board determines and keeps under review the objectives of the Group. It makes decisions on overall strategies and actions necessary for achieving these objectives, monitors and controls financial and operating performance, formulates appropriate policies, and identifies and ensures best practices of corporate governance. 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.

The Board comprises a balanced number of Executive Directors and Non-Executive Directors (including Independent Non-Executive Directors) that can ensure there is adequate independent judgment for the running of the Company's business. The members of the Board comprise experts from various professions with extensive experience. One of the Independent Non-Executive Directors has appropriate professional qualifications or accounting or related financial management expertise. In all corporate communications, the Company had disclosed the composition of the Board according to the categories and responsibilities of the Directors.

CORPORATE GOVERNANCE REPORT

As at the date of this annual report, the Board comprises seven members, including three Executive Directors, one Non-Executive Director and three Independent Non-Executive Directors. The Board members during the year and up to the date of this annual report were:

Executive Directors

Mr. Tam Owen *(Chairman)*
Mr. Law Fei Shing *(Chief Executive Officer)*
Mr. Chan Sung Wai *(appointed on 1 November 2008)*
Dr. Yuen Clement Ming Kai *(Vice-Chairman, resigned on 1 November 2008)*
Mr. So Chi Keung *(resigned on 12 November 2008)*
Mr. Fok Po Tin *(resigned on 16 April 2009)*
Mr. Leung Kai Hung *(resigned on 29 October 2008)*
Mr. Yeung Delon *(resigned on 18 November 2008)*
Mr. Sun Tak Yan Desmond *(appointed on 14 July 2008 and resigned on 12 November 2008)*

Non-executive Director

Mr. Lam Shing Tsun Edmond

Independent Non-executive Directors

Mr. Lum Pak Sum
Mr. Sun Tak Keung
Mr. Chow Pui Fung *(appointed on 30 November 2008)*
Mr. Wan Hon Keung *(resigned on 30 November 2008)*

Biographical details of the Directors and senior management of the Company as at the date of this annual report are set out in the “Biographical Details of Directors and Senior Management” section on pages 6 to 8 of this annual report. None of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

The Company has received an annual confirmation of independence from each of its Independent Non-Executive Directors pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three Independent Non-Executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

During the year ended 31 December 2008, 16 full board meetings were held and details of attendance is set out as follows:

	Number of Board meetings attended/ eligible to attend Board meetings
Executive Directors	
Mr. Tam Owen	16/16
Mr. Law Fei Shing	16/16
Mr. Chan Sung Wai *(Note 1)*	1/1
Dr. Yuen Clement Ming Kai *(Note 2)*	13/15
Mr. So Chi Keung *(Note 3)*	14/15
Mr. Fok Po Tin *(Note 4)*	2/16
Mr. Leung Kai Hung *(Note 5)*	7/14
Mr. Yeung Delon *(Note 6)*	15/15
Mr. Sun Tak Yan Desmond *(Note 7)*	2/3
Non-Executive Director	
Mr. Lam Shing Tsun Edmond	16/16
Independent Non-Executive Directors	
Mr. Lum Pak Sum	15/16
Mr. Sun Tak Keung	16/16
Mr. Chow Pui Fung *(Note 8)*	1/1
Mr. Wan Hon Keung *(Note 9)*	15/15

Notes:

1: Appointed on 1 November 2008
2: Resigned on 1 November 2008
3: Resigned on 12 November 2008
4: Resigned on 16 April 2009
5: Resigned on 29 October 2008
6: Resigned on 18 November 2008
7: Appointed on 14 July 2008 and resigned on 12 November 2008
8: Appointed on 30 November 2008
9: Resigned on 30 November 2008

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.

Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are separated who are Mr. Tam Owen and Mr. Law Fei Shing respectively. Chairman is responsible for the leadership and effective running of the Board, while Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. Chief Executive Officer is responsible for the day-to-day management of the Company's business, recommending strategies to the Board, and determining and implementing operational decisions.

Non-Executive Directors

The Company has deviated from the requirements of Code Provision A.4.1 of the Code, which stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Some existing Non-Executive Directors (including Independent Non-Executive Directors) of the Company do not have a specific term of appointment.

As the appointment of Non-Executive Directors are subject to the retirement by rotation provisions in the Articles of Association of the Company, the Board considers that it is not necessary to appoint the Non-Executive Directors for a specific term and it is sufficient measures have been taken to ensure that the Company's corporate governance practices are on terms no less exacting than the required standard set out in the Code. At every annual general meeting, one-third of the Directors for the time being (or if their number is not three or in 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. All Directors, including those appointed for a fixed term, are subject to the retirement by rotation provision in the Articles of Association of the Company.

Remuneration Committee

The remuneration committee of the Company, formed in September 2005, comprises the Chairman and all three Independent Non-executive Directors. It is chaired by Mr. Tam Owen, the Chairman of the Board.

The remuneration committee has adopted written terms of reference prepared by reference to the suggested terms of reference stated under the Code Provision B.1.3 of the Code. The primary duties of the remuneration committee include (but without limitation):

1. To make recommendations to the Directors on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration.

2. To determine the terms of the specific remuneration package of the Directors and senior management.

3. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time.

During the year ended 31 December 2008, the remuneration committee held three meetings to review the remuneration package of the Board members and the senior management. Composition of the remuneration committee and details of members' attendance to the committee are as follows:

	Number of meetings attended/ eligible to attend meetings
Mr. Tam Owen *(Chairman)*	3/3
Mr. Lum Pak Sum	3/3
Mr. Sun Tak Keung	3/3
Mr. Chow Pui Fung *(appointed on 30 November 2008)*	0/0
Mr. Wan Hon Keung *(resigned on 30 November 2008)*	1/3

Nomination Committee

The nomination committee of the Company, formed in September 2005, comprises the Chairman and all three Independent Non-executive Directors. It is chaired by Mr. Tam Owen, the Chairman of the Board.

The nomination committee has adopted written terms of reference prepared by reference to the suggested terms of reference stated under the Code Provision A.4.5 of the Code. The major roles and functions of the 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.

During the year ended 31 December 2008, the nomination committee held three meetings. Composition of the nomination committee and details of members' attendance to the committee are as follows:

	Number of meetings attended/ eligible to attend meetings
Mr. Tam Owen *(Chairman)*	3/3
Mr. Lum Pak Sum	3/3
Mr. Sun Tak Keung	3/3
Mr. Chow Pui Fung *(appointed on 30 November 2008)*	0/0
Mr. Wan Hon Keung *(resigned on 30 November 2008)*	1/3

Audit Committee

The audit committee of the Company was established with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the suggested terms of reference stated under the Code Provision C.3.3 of the Code. The audit committee comprises all three Independent Non-executive Directors and is chaired by Mr. Lum Pak Sum. The audit committee 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 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.

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.

During the year ended 31 December 2008, the audit committee held two meetings to review the annual and interim results. Composition of the audit committee and details of members' attendance to the committee are as follows:

	Number of meetings attended/ eligible to attend meetings
Mr. Lum Pak Sum	2/2
Mr. Sun Tak Keung	2/2
Mr. Chow Pui Fung *(appointed on 30 November 2008)*	0/0
Mr. Wan Hon Keung *(resigned on 30 November 2008)*	2/2

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 31 December 2008:

	Services rendered
	Fees paid/payable
	HK$'000
Audit services	480
Non-audit services (i.e. consultancy services)	298
Total	778

Internal Control

The Company endeavors to implement a sound risk management and internal control system. The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company's assets, and reviewing the effectiveness of such system on an annual basis, as well as through the audit committee. The audit committee reports to the Board on any material issues and makes recommendations to the Board.

Shareholder right and Investor relations

The rights of shareholders and the procedures for them to demand a poll on resolutions at shareholders' meetings are contained in the Articles. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders prior to 31 December 2008 and will be explained during the proceedings of meetings. Poll results, if any, will be posted on both the websites of the Stock Exchange and the Company no later than 30 minutes before the earlier of the morning session or any pre-opening session on the next business day of the shareholders' meeting.

The general meetings of the Company provide a platform for communication between the shareholders and the Board. The Chairman of the Board as well as chairman of the remuneration committee and audit committee or if, in their absence, other members of the respective committees, and where applicable, the independent board committee, are available to answer questions at the shareholders' meetings. The Company continues to enhance communications and relationships with its investors. Enquiries from investors are dealt with in an informative and timely manner.

Taking advantages of various resources, the Company keeps communicating with its shareholders regularly and properly to ensure that shareholders are adequately aware of any important issues during the course of the Company's operation, and then exercise their rights as shareholders with sufficient knowledge. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications. Investors are welcome to write directly to the Company at its Hong Kong registered office for any inquiries.

Directors' Responsibility for Preparing the Financial Statements

The Board acknowledges that it is responsible for the preparation of financial statements of the Group and for ensuring that financial statements are prepared in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of financial statements of the Group. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the external auditors of the Company, Grant Thornton, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 29 to 30 of this annual report.

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 2008.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the Group include trading of carpets and exploration of mine. During the year, the Group discontinued its manufacturing of carpets and trading of goods operation with details set out in notes 11 and 26 to the financial statements.

Results and Dividends

The Group's loss for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 124. 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 2004, 2005, 2006, 2007 and 2008, 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.

Results

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
REVENUE					
— CONTINUING OPERATIONS*	**12,846**	28,851	17,698	32,803	10,973
— DISCONTINUED OPERATIONS**	**6,418**	26,796	8,825	8,179	8,587
OPERATING LOSS FROM CONTINUING OPERATIONS	**(296,296)**	(38,194)	(28,390)	(34,450)	(61,211)
FINANCE COSTS	**(22,521)**	(3,235)	(149)	(1,686)	(3,290)
LOSS BEFORE INCOME TAX FROM CONTINUING OPERATIONS	**(318,817)**	(41,429)	(28,539)	(36,136)	(64,501)
INCOME TAX	**—**	—	—	—	84
LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS	**(29,665)**	(37,132)	(17,618)	(54,994)	(13,292)
LOSS FOR THE YEAR	**(348,482)**	(78,561)	(46,157)	(91,130)	(77,709)
LOSS ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	**(341,321)**	(79,129)	(46,167)	(91,136)	(77,486)
MINORITY INTERESTS	**(7,161)**	568	10	6	(223)
	(348,482)	(78,561)	(46,157)	(91,130)	(77,709)

* Continuing operations for years ended 31 December 2004, 2005, 2006, 2007 and 2008 represent trading of carpets.

** Discontinued operations for years ended 31 December 2004, 2005, 2006, 2007 and 2008 represent manufacturing of carpets and trading of goods.

Assets, Liabilities and Minority Interests

	At 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS	**747,086**	702,176	82,614	83,403	118,406
CURRENT ASSETS	**93,511**	168,012	17,903	27,199	57,089
TOTAL ASSETS	**840,597**	870,188	100,517	110,602	175,495
CURRENT LIABILITIES	**64,123**	68,157	36,558	22,050	77,298
NON-CURRENT LIABILITIES	**192,695**	177,403	1,158	2,660	18,128
TOTAL LIABILITIES	**256,818**	245,560	37,716	24,710	95,426
NET ASSETS	**583,779**	624,628	62,801	85,892	80,069
MINORITY INTERESTS	**1,288**	33,581	(217)	(227)	(233)

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 16 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 34 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.

Convertible Bonds

The Company issued two tranches of zero coupon convertible bonds in the principal amount of HK$365,000,000 (the "CB1") and HK$580,000,000 (the "CB3") on 5 November 2007 and 3 July 2008 respectively. Details of movements in the convertible bonds of the Company are set out in note 32 to the financial statements.

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 35 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$903 million as at 31 December 2008, 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 56% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 28%.

Purchases from the Group's five largest suppliers accounted for approximately 83% 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 Board members during the year and up to the date of this annual report were:

Executive Directors

Mr. Tam Owen *(Chairman)*
Mr. Law Fei Shing *(Chief Executive Officer)*
Mr. Chan Sung Wai *(appointed on 1 November 2008)*
Dr. Yuen Clement Ming Kai *(Vice-Chairman, resigned on 1 November 2008)*
Mr. So Chi Keung *(resigned on 12 November 2008)*
Mr. Fok Po Tin *(resigned on 16 April 2009)*
Mr. Leung Kai Hung *(resigned on 29 October 2008)*
Mr. Yeung Delon *(resigned on 18 November 2008)*
Mr. Sun Tak Yan Desmond *(appointed on 14 July 2008 and resigned on 12 November 2008)*

Non-executive Director

Mr. Lam Shing Tsun Edmond

Independent Non-executive Directors

Mr. Lum Pak Sum
Mr. Sun Tak Keung
Mr. Chow Pui Fung *(appointed on 30 November 2008)*
Mr. Wan Hon Keung *(resigned on 30 November 2008)*

In accordance with article 108(A) of the Company's Articles of Association, Mr. Tam Owen and Mr. Sun Tak Keung 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, Mr. Chan Sung Wai and Mr. Chow Pui Fung who were appointed as directors of the Company on 1 November 2008 and 30 November 2008 respectively, 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.

Mr. Lum Pak Sum and Mr. Chow Pui Fung, being Independent Non-Executive Directors of the Company, are 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 6 to 8 of the annual report.

Directors' Service Contracts

None of Director being 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(t) to the financial statements.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2008, 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 Directors	Capacity/Nature of interests	Number of shares held	Approximate percentage of shareholding
Mr. Law Fei Shing *(Note)*	Beneficial owner/Personal	15,450,000	0.51%
Mr. Chow Pui Fung	Beneficial owner/Personal	10,000,000	0.33%

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 were proposed to be transferred to Mr. Law Fei Shing on 5 November 2008, 5 November 2009 and 5 November 2010. However, Mr. Law Fei Shing and Ms. Leung Lai Ching Margaret entered into a supplementary agreement on 20 March 2009, pursuant to which Mr. Law Fei Shing agreed to forfeit and waive his rights title interest and benefit in and to the above shares. As at 20 March 2009 and the date of this annual report, no share had been transferred from Ms. Leung Lai Ching Margaret to Mr. Law Fei Shing.

Save as disclosed above, as at 31 December 2008, 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.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 31 December 2008, so far as is known to the directors or chief executives of the Company, the following persons other than a director or chief executive of the Company had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

	Interest in Shares					
Name of Shareholders	Personal Interests*	Corporate Interest+	Interests in underlying Shares	Aggregate interest	Approximate percentage#	Notes
Golden Mount Limited	784,272,000	–	–	784,272,000	25.93%	1
Mr. Chim Pui Chung	–	784,272,000	–	784,272,000	25.93%	1
Central Ocean Group Limited	196,000,000	–	–	196,000,000	6.48%	2
Mr. Lam Shu Chung	54,312,000	216,638,750	–	270,950,750	8.96%	2
Ms. Leung Lai Ching Margaret	7,420,000	–	2,338,120,000	2,345,540,000	77.55%	3&4
Mr. Yue Wai Keung	–	–	835,000,000	835,000,000	27.61%	5

* Beneficial owner
+ Interests of controlled corporation(s)
# Percentage which the aggregate long position in the shares or underlying shares represents to the issued share capital of the Company of 3,024,720,000 shares at 31 December 2008

Notes:

1. Golden Mount Limited is a company incorporated under the laws of the British Virgin Islands, the entire issued share capital of which is legally and beneficially owned by Mr. Chim Pui Chung. Mr. Chim Pui Chung therefore deemed to be interested in 784,272,000 shares held by Golden Mount Limited.

2. 270,950,750 shares are owned by Mr. Lam Shu Chung as to 20,638,750 shares by Prime Orient International Limited, as to 196,000,000 shares by Central Ocean Group Limited and as to 54,312,000 shares directly owned by himself. Both Prime Orient International Limited and Central Ocean Group Limited are wholly and beneficially owned by Mr. Lam Shu Chung.

3. 2,338,120,000 underlying shares consist of shares to be issued upon the conversion of (i) the outstanding Tranche 1 Bonds (as defined in the circular of the Company dated 15 October 2007) (which, based on the conversion price of HK$0.60 per share, can be converted into 67,333,333 shares); (ii) the Tranche 2 Bonds (as defined in the circular of the Company dated 15 October 2007) (which, based on the conversion price of HK$0.60 per share, can be converted into 666,666,667 shares); (iii) the outstanding Tranche 3 Bonds (as defined in the circular of the Company dated 6 June 2008) (which, based on the conversion price of HK$0.25 per share, can be converted into 81,000,000 shares); and (iv) the Tranche 4 Bonds (as defined in the circular of the Company dated 6 June 2008) (which, based on the conversion price of HK$0.25 per share, can be converted into 1,523,120,000 shares).

4. The Tranche 2 Bonds and Tranche 4 Bonds have not been issued. Please refer to the Company's circulars dated 15 October 2007 and 6 June 2008 for details of the principal terms of the Tranche 2 Bonds and Tranche 4 Bonds respectively.

5. 835,000,000 underlying shares consist of shares to be issued upon the conversion of (i) the outstanding Tranche 1 Bonds (which, based on the conversion price of HK$0.60 per share, can be converted into 72,000,000 shares); and (ii) the outstanding Tranche 3 Bonds (which, based on the conversion price of HK$0.25 per share, can be converted into 763,000,000 shares).

All the interests stated above represent long positions in the ordinary shares of the Company. As at 31 December 2008, no short positions were recorded in the register maintained by the Company under section 336 of the SFO.

Save as disclosed herein, as at 31 December 2008, there was no other person so far known to the directors or chief executives of the Company, other than a director or chief executive of the Company as having an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of 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 equivalent to 10% of the shares of the Company in issue at any time.

Pursuant to the extraordinary general meeting held on 31 October 2007, the general scheme limit of 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 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.

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.

Connected Transactions

Details of the connected transactions that are required to be disclosed for the year are set out in note 42 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 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.

Directors' Interests in a Competing Business

During the year and up to date of this 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.

Corporate Governance

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 9 to 17 of this annual report.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2008.

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 2008. 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 2008 have been audited by Grant Thornton, Certified Public Accountants, who will retire and, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

LAW FEI SHING
Chief Executive Officer and Executive Director

Hong Kong, 24 April 2009

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
(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 referred to as the "Group") set out on pages 31 to 124, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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 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 2008 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

24 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Continuing operations:			
Revenue	5	**12,846**	28,851
Cost of sales		**(10,883)**	(22,042)
Gross profit		**1,963**	6,809
Other income	5	**10,752**	4,016
Selling and distribution expenses		**(734)**	(2,071)
Administrative expenses		**(40,397)**	(45,511)
Other operating expenses		**(14,850)**	(1,110)
Impairment loss recognised in respect of goodwill	19	**(253,030)**	(327)
Operating loss		**(296,296)**	(38,194)
Finance costs	7	**(22,521)**	(3,235)
Loss before income tax	8	**(318,817)**	(41,429)
Income tax expense	9	**—**	—
Loss after tax from continuing operations		**(318,817)**	(41,429)
Discontinued operations:			
Loss for the year from discontinued operations	11	**(29,665)**	(37,132)
Loss for the year		**(348,482)**	(78,561)
Attributable to:			
Equity holders of the Company	12	**(341,321)**	(79,129)
Minority interests		**(7,161)**	568
Loss for the year		**(348,482)**	(78,561)
Loss per share for loss attributable to the equity holders of the Company	13		
— Basic			
From continuing and discontinued operations		**(HK cents 15.9)**	(HK cents 9.4)
From continuing operations		**(HK cents 14.7)**	(HK cents 5.0)
— Diluted			
From continuing and discontinued operations		**N/A**	N/A
From continuing operations		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16(a)	4,709	49,129
Prepaid lease payments	17	—	13,926
Goodwill	19	696,033	611,485
Available-for-sale financial assets	20	12,091	—
Exploration and evaluation assets	21	34,253	27,636
		747,086	702,176
Current assets			
Inventories	22	—	4,154
Trade and bills receivables	23	43	17,219
Prepayments, deposits and other receivables	24	30,998	95,914
Cash at banks and in hand	25	881	50,725
		31,922	168,012
Assets in disposal group classified as held for sale	26	61,589	—
		93,511	168,012
Current liabilities			
Trade payables	27	—	19,704
Deposits received, other payables and accruals	28	13,755	43,022
Finance lease payables	29	97	91
Bank and other borrowings	30	—	5,340
		13,852	68,157
Liabilities in disposal group classified as held for sale	26	50,271	—
		64,123	68,157
Net current assets		29,388	99,855
Total assets less current liabilities		776,474	802,031
Non-current liabilities			
Finance lease payables	29	33	130
Amounts due to minority shareholders	31	—	37,602
Convertible bonds	32	192,662	139,671
		192,695	177,403
Net assets		583,779	624,628

	Notes	2008 HK$'000	2007 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	34	**30,247**	13,587
Reserves	35(a)	**552,244**	577,460
		582,491	591,047
Minority interests		**1,288**	33,581
Total equity		**583,779**	624,628

Tam Owen
Director

Law Fei Shing
Director

BALANCE SHEET
As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16(b)	**83**	157
Interests in subsidiaries	18	**998,601**	661,395
		998,684	661,552
Current assets			
Prepayments, deposits and other receivables	24	**14**	346
Cash at banks and in hand		**496**	5,688
		510	6,034
Current liabilities			
Deposits received, other payables and accruals	28	**7,779**	6,891
Net current liabilities		**(7,269)**	(857)
Total assets less current liabilities		**991,415**	660,695
Non-current liabilities			
Convertible bonds	32	**192,662**	139,671
Net assets		**798,753**	521,024
EQUITY			
Share capital	34	**30,247**	13,587
Reserves	35(b)	**768,506**	507,437
Total equity		**798,753**	521,024

Tam Owen
Director

Law Fei Shing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Equity attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Assets revaluation reserve HK$'000	Exchange reserve HK$'000	Convertible bonds equity reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 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 16(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 37(a),(c))	–	–	–	–	–	–	–	–	–	33,230	33,230
Issue of shares	6,450	363,696	–	–	–	–	–	–	370,146	–	370,146
Issue of convertible bonds (note 32)	–	–	–	–	–	189,421	–	–	189,421	–	189,421
Issue of shares on conversion of convertible bonds (note 34(f))	1,360	80,240	–	–	–	(42,160)	–	–	39,440	–	39,440
Exercise of share options and issue of shares (note 34(h))	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**
At 1 January 2008	13,587	560,420	137,610	–	10,024	147,261	–	(277,855)	591,047	33,581	624,628
Currency translation	–	–	–	–	7,214	–	–	–	7,214	1,727	8,941
Net income/(expense) recognised directly in equity	–	–	–	–	7,214	–	–	–	7,214	1,727	8,941
Net loss for the year	–	–	–	–	–	–	–	(341,321)	(341,321)	(7,161)	(348,482)
Total recognised income and expense for the year	–	–	–	–	7,214	–	–	(341,321)	(334,107)	(5,434)	(339,541)
Acquisition of additional interests in a subsidiary (note 37(d))	–	–	–	–	–	–	–	–	–	(25,928)	(25,928)
Disposals of subsidiaries (note 38(b))	–	–	–	–	–	–	–	–	–	217	217
Deemed disposals of subsidiaries (note 39)	–	–	–	–	(6,848)	–	–	–	(6,848)	(1,148)	(7,996)
Issue of convertible bonds (note 32)	–	–	–	–	–	103,438	–	–	103,438	–	103,438
Issue of shares on conversion of convertible bonds (note 34(f),(g))	16,660	342,628	–	–	–	(130,327)	–	–	228,961	–	228,961
At 31 December 2008	**30,247**	**903,048**	**137,610**	**–**	**10,390**	**120,372**	**–**	**(619,176)**	**582,491**	**1,288**	**583,779**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from operating activities of continuing and discontinued operations			
Loss before income tax			
Continuing operations		**(318,817)**	(41,429)
Discontinued operations		**(29,665)**	(37,132)
		(348,482)	(78,561)
Adjustments for:			
Depreciation		**3,449**	8,401
Write-down of inventories to net realisable value	8	**—**	458
Amortisation of prepaid lease payments	8	**244**	299
Bad debts written off	8	**11,720**	—
Impairment of goodwill	8	**253,030**	1,081
Provision for impairment loss of trade and other receivables	8	**—**	1,488
Gain on disposals of subsidiaries	5	**(6,280)**	(281)
Loss on deemed disposals of subsidiaries	39	**11,027**	—
Assets in disposal group classified as held for sale – loss on re-measurement of fair value less costs to sell	26	**15,410**	—
Loss on disposals of property, plant and equipment	8	**2,090**	490
Deficits on revaluation of property, plant and equipment	16	**—**	26,976
Interest income		**(3,921)**	(2,745)
Interest expenses	7	**22,521**	3,235
Operating loss before working capital changes		**(39,192)**	(39,159)
Increase in inventories		**(3,141)**	(335)
Increase in trade and bills receivables		**(1,651)**	(11,121)
Increase in prepayments, deposits and other receivables		**(5,132)**	(71,077)
(Decrease)/ Increase in trade payables		**(143)**	7,480
Increase in deposits received, other payables and accruals		**12,134**	13,492
Decrease in amounts due to directors		**—**	(1,143)
Increase in amounts due to minority shareholders		**2,589**	39,869
Cash used in operations		**(34,536)**	(61,994)
Interest paid		**(13)**	(170)
Hong Kong profits tax paid		**—**	—
Net cash used in operating activities		**(34,549)**	(62,164)

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flow from investing activities of continuing and discontinued operations			
Purchases of property, plant and equipment		**(1,329)**	(3,176)
Payments for exploration and evaluation assets		**(6,566)**	(8,572)
Net cash outflow arising from disposals of subsidiaries	38(d)	**(563)**	(3)
Net cash outflow arising from deemed disposal of subsidiaries	39	**(9,221)**	—
Proceeds from disposals of property, plant and equipment		**36**	15
Purchases of subsidiaries (net of cash and cash equivalent acquired)		**—**	(82,374)
Interest received		**3,921**	2,745
Net cash used in investing activities		**(13,722)**	(91,365)
Cash flow from financing activities of continuing and discontinued operations			
New other borrowings		**—**	5,340
Proceeds from issue of shares upon placement		**—**	187,446
Proceeds from issue of shares upon exercise of share options	34(h)	**—**	10,786
Capital element of finance lease payments		**(91)**	(115)
Net cash (used in)/generated from financing activities		**(91)**	203,457
Net (decrease)/increase in cash and cash equivalents		**(48,362)**	49,928
Cash and cash equivalents at 1 January		**50,725**	771
Effect on foreign exchange rate changes		**24**	26
Cash and cash equivalents at 31 December		**2,387**	50,725
Analysis of balances of cash and cash equivalents			
Cash and banks balances of continuing operations	25	**881**	50,725
Cash and bank balances included in assets held for sale	26	**1,506**	—
		2,387	50,725

1. GENERAL INFORMATION

Xian Yuen Titanium Resources Holdings Limited (the "Company") is a limited liability company incorporated and domiciled in Cayman Islands. 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 Room 1102B, 11th Floor, Tower 1, Admiralty Centre, 18 Harcourt Road, 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:

— the exploration of mine in the People's Republic of China (the "PRC") (commercial operations has not yet been commenced during the year);

— the trading of carpets representing the trading of carpets of other renowned brand names;

— the manufacturing of carpets representing the manufacturing and sale of carpets; and

— the trading of goods

The businesses of carpet manufacturing was carried out by its subsidiaries, namely Hui Zhou Orient Carpet Manufacturing Co., Ltd ("HZOCM") and 唐山勝盟工藝製毯有限公司 ("唐山勝盟") (collectively referred to as the "Carpet Manufacturing Group") whilst the business of goods trading was carried out by the Group's other subsidiaries, namely Wise Mount Management Limited ("Wise Mount") and Win Alliance Development Limited ("Win Alliance") (collectively referred to as the "Goods Trading Business Group").

During the year, Orient Carpet Manufacturing (HK) Limited ("Orient Carpet") was also disposed of together with its subsidiary, HZOCM. Orient Carpet was principal engaged in the trading of carpets. This business is now carried out by the Group's subsidiary, Ho Fai Carpet Trading Limited. The trading of carpets are not included in the discontinued operations but Orient Carpet is included in disposal group (note 26).

During the year, the Group also disposed of a subsidiary, namely Beijing Forest Source Mining Industry Development Company Limited ("BJFSMI"). This company was established in Beijing, the PRC and has net assets of HK$10,000,000 (which are principally represented a deposit for purchasing mineral). BJFSMI is also included in disposal group (note 26).

As these two business segments had been suffering persistent losses and there will be no significant improvement in the near future in these operations, on 4 December 2008, the Group entered into two separate sale and purchase agreements to dispose of the Carpet Manufacturing Group and the Goods Trading Business Group. The Carpet Manufacturing Group and the Goods Trading Business Group are collectively referred to as the Discontinued Operations (notes 11 and 26).

1. GENERAL INFORMATION (Continued)

Details of the disposals of the Carpet Manufacturing Group and the Goods Trading Business Group are set out in the Company's circular dated 12 January 2009. The disposals of the Carpet Manufacturing Group and the Goods Trading Business Group were completed in March and February 2009 respectively.

Other than the disposals as described above, there were no significant changes in the Group's operations during the year. The Group's principal places of the business are in Hong Kong and the PRC. The principal activities and other particulars of its subsidiaries are set out in note 18 to the financial statements.

The financial statements on pages 31 to 124 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The 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 financial statements for the year ended 31 December 2008 were approved for issue by the board of directors on 24 April 2009.

2. ADOPTION OF NEW AND AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2008:

HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HKAS 39 (Amendments)	Reclassification of Financial Assets

The adoption of the new HKFRSs had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

2. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 (Amendment)	Eligible Hedged Items[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[2]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate[1]
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[1]
HKFRS 8	Operation Segments[1]
HK(IFRIC) — Int 2 (Amendment)	Members' Shares in Co-operative Entities and Similar Instruments[1]
HK(IFRIC) — Int 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives[7]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[2]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[5]
Various	Annual Improvements to HKFRSs 2008[6]

[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 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for transfers of assets from customers received on or after 1 July 2009
[6] Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRS
[7] Effective for annual periods ending on or after 30 June 2009

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

2. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

Amongst these new standards and interpretations, HKAS 1(Revised) Presentation of Financial Statements is expected to materially change the presentation of the Group's financial statements. These amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals or in two separate statements (a separate income statement followed by a statement of comprehensive income). These amendments do not affect the financial positions or results of the Group but will give rise to additional disclosures.

In addition, HKFRS 8 - Operating Segments may result in new or amended disclosures. The directors are in the process of identifying reportable operating segments as defined in HKFRS 8.

The directors are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial positions.

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 under 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 the 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.

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 de-consolidated 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 loss unless the subsidiary is held for sale or included in disposal group. 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.

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 are recongnised 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 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.

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 as 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.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Goodwill (Continued)

If the initial accounting for a business combination can be determined only provisionally by the end of the year 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.

When there is additional acquisition of interests in a subsidiary by the Group that do not result in gaining or losing control in that subsidiary, the minority interest component of equity is adjusted to reflect the minority's revised share of the net carrying value of the subsidiary's net assets. The difference between the consideration paid by the Group and the proportionate increase in the Group's interest in the carrying values of the subsidiary's net assets is recorded as additional goodwill and no fair value adjustment is made to the carrying values of the subsidiary's net assets as reported in the consolidated financial statements.

When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Group shall include the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably. When a business combination agreement provides for such an adjustment, that adjustment is not included in the cost of the combination at the time of initially accounting for the combination if it either is not probable or cannot be measured reliably. If that adjustment subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment loss. 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 are written off as expense as incurred. Once the technical feasibility and commercial viability of extracting the mineral resource had been determined and that the project reaches development phase, exploration and evaluation costs capitalised are amortised. If exploration property 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.

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 the 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 the 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 at mining site and buildings	The shorter of the lease terms and 50 years
Plant and machinery	15 years
Leasehold improvements, furniture, office equipment and motor vehicles	4 to 10 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property, plant and equipment (Continued)

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, depreciation methods and estimated 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 net 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 any impairment losses and is not depreciated. Cost comprises direct costs incurred during the periods of construction, installation and testing. CIP is reclassified to the appropriate category of property, plant and equipment and depreciation commences when the construction work is completed and the asset is ready for use.

(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 assets 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment testing of assets (Continued)

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflow independently (i.e. a CGU). As a result, some assets are tested individually for impairment and some are tested as CGU level. Goodwill in particular is allocated to those CGUs 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 CGUs, 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 CGU, 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 including impairment losses recognised in an interim period. 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases (Continued)

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 the income statement 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.

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 right to use of assets held under operating leases, payments made under the leases are charged to the income statement using the 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. These payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases (Continued)

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 using the 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 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.

(m) Financial assets

Recognition and measurement

The Group's financial assets are classified as loans and receivables and available-for-sale financial assets.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial assets (Continued)

Recognition and measurement (Continued)

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

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.

Available-for-sale financial assets

These include non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income, except for impairment losses (see the policy below) is recognised directly in equity until the financial assets is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recycled to the income statement. Interest calculated using the effective interest method is recognised in the income statement.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial assets (Continued)

Impairment of financial assets

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment. Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

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

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

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

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

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

(i) Loans and receivables carried at amortised cost

A provision for impairment of loans and 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 the 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 trade receivable is impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Loans and receivables carried at amortised cost (Continued)

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.

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.

Impairment losses recognised whose recovery is considered doubtful but not remote, are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against the loans and receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the income statement as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial assets (Continued)

Impairment of financial assets (Continued)

(iii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(n) Assets held for sale

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

(o) 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, tax 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Accounting for income taxes (Continued)

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

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

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

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

(p) 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.

(q) 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.

(r) Financial liabilities

The Group's financial liabilities include trade payables, other payables and accruals, amounts due to 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial liabilities (Continued)

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.

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.

Trade payables, other payables and accruals

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial liabilities (Continued)

Convertible bonds that contain an equity component (Continued)

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 the consideration for the shares issued. If the bonds are redeemed, the convertible bond equity reserve is released directly to accumulated losses.

Finance lease liabilities

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

(s) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Retirement benefits costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

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 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.

According to the relevant regulations in the PRC, the subsidiaries of the Group operating in the PRC are required to participate in central pension schemes operated by the respective local municipal governments, whereby the PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the scheme to fund their retirement benefits. The scheme is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the employer contributions. Contributions under the scheme are charged to the income statement as they become payable in accordance with the rules and regulations in the PRC.

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 unused annual leave as a result of services rendered by employees up to the balance sheet date.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Share-based compensation

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).

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

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as share premium. When the vested share options are lapsed, forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

(v) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Segment reporting (Continued)

In respect of business segment reporting, 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. Unallocated costs include corporate expenses and other expenses that cannot be allocated on a reasonable basis to the reportable segments.

Segment assets consist primarily of property, plant and equipment, prepaid lease payments, inventories, receivables, goodwill and operating cash, and mainly exclude available-for-sale financial assets. Segment liabilities comprise operating liabilities and exclude items such as corporate borrowings and other liabilities that are incurred for financing rather than operating purpose.

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, borrowings, corporate and financing expenses and minority interests.

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

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Related parties (Continued)

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

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

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

(x) Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that has been disposed of or is classified as held for sale, which represents a separate major line of business or geographical area of operations of the Group.

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, rarely 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:

Depreciation

The Group depreciates its property, plant and equipment using the 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 intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Fair value of property, plant and equipment

Property, plant and equipment, other than CIP, are stated at fair value based on the directors' estimate. In determining the fair value, the directors 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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. Allowances for impairment of receivables are determined by management of the Group based on the repayment history of its debtors and the current market conditions. 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, if any, at the balance sheet date.

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.

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.

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). The recoverable amounts of CGUs are determined based on value-in-use calculations. These calculations require the use of judgement and estimates of the future cash flows expected to arise from the CGUs, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. Details in impairment assessment are set out in note 19 to the financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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.

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:

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue						
Sale of goods	**12,846**	28,851	**6,418**	26,796	**19,264**	55,647
Other income						
Interest income from loan receivables	**3,920**	2,742	**1**	3	**3,921**	2,745
Rental and sub-leasing rental income	**20**	989	**–**	–	**20**	989
Sundry income	**532**	4	**20**	213	**552**	217
Gain on disposals of subsidiaries (note 38(a), (b) and (c))	**6,280**	281	**–**	–	**6,280**	281
	10,752	4,016	**21**	216	**10,773**	4,232

Note:

Gain on disposals of subsidiaries

On 6 March 2008, the Group disposed of all 75.5% equity interests in a subsidiary, namely Kaicheng (Hong Kong) Company Limited ("Kaicheng"), for a consideration of HK$1. As at the date of the disposal, Kaicheng had a net liability of approximately HK$842,000. Accordingly, a gain of approximately HK$842,000 was recognised in the income statement during the year. Details of this disposal transaction are fully described in note 38(a).

5. REVENUE AND OTHER INCOME (Continued)

Note: (Continued)

Gain on disposals of subsidiaries (Continued)

On 30 May 2008, the Group disposed of all 51% equity interests in a subsidiary, namely International Carpet Company Limited ("ICC"), for a consideration of HK$200,000. As at the date of the disposal, ICC had a net liability of approximately HK$5,238,000. Accordingly, a gain of approximately HK$5,438,000 was recognised in the income statement during the year. Details of this disposal transaction are fully described in note 38(b).

On 30 May 2007, the Group disposed of 100% equity interests in a subsidairy, namely 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 approximately HK$281,000. Accordingly, a gain of approximately HK$281,000 was recognised in the income statement in 2007. Details of this disposal transaction are fully described in note 38(c).

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

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

(c) the manufacturing of carpets segment represents the manufacturing and sale of carpets (included as a discontinued operation during the year and represented by the Carpet Manufacturing Group (note 1)); and

(d) the trading of goods (also included as a discontinued operation during the year and represented by the Goods Trading Business Group (note 1)).

There was no intersegment sale and transfer during the year (2007: Nil).

6. SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	Continuing operations				Discontinued operations					
	Exploration of mine		Trading of carpets		Manufacturing of carpets		Trading of goods		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:										
Sales to external customers	–	–	12,846	28,851	6,418	11,745	–	15,051	19,264	55,647
Segment results	(266,235)	(14,273)	(9,896)	(2,215)	(15,465)	(35,565)	(14,200)	(1,567)	(305,796)	(53,620)
Unallocated other operating income									7,352	2,611
Other unallocated expense									(27,517)	(24,317)
Finance costs									(22,521)	(3,235)
Loss before income tax									(348,482)	(78,561)
Income tax expense									–	–
Loss for the year									(348,482)	(78,561)
Segment assets	774,902	695,034	1,275	7,278	35,341	40,881	14,928	29,086	826,446	772,279
Unallocated assets	–	–	–	–	–	–	–	–	14,151	97,909
Total assets	774,902	695,034	1,275	7,278	35,341	40,881	14,928	29,086	840,597	870,188
Segment liabilities	199,629	147,382	8,643	22,556	27,883	15,760	13,610	13,569	249,765	199,267
Unallocated liabilities	–	–	–	–	–	–	–	–	7,053	46,293
Total liabilities	199,629	147,382	8,643	22,556	27,883	15,760	13,610	13,569	256,818	245,560

6. SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	Continuing operations				Discontinued operations					
	Exploration of mine		Trading of carpets		Manufacturing of carpets		Trading of goods		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Amortisation of prepaid lease payments	–	–	–	–	64	119	180	180	244	299
Depreciation	937	144	50	173	1,068	6,406	117	136	2,172	6,859
Unallocated depreciation	–	–	–	–	–	–	–	–	1,277	1,542
	937	144	50	173	1,068	6,406	117	136	3,449	8,401
Capital expenditure										
Property, plant and equipment	1,030	9	61	24	153	30	–	–	1,244	63
Unallocated capital expenditure	–	–	–	–	–	–	–	–	85	5,113
	1,030	9	61	24	153	30	–	–	1,329	5,176
Additions to exploration and evaluation assets	6,566	8,572	–	–	–	–	–	–	6,566	8,572
Non cash expense										
Bad debts written off	–	–	–	–	–	–	11,720	–	11,720	–
Write-down of inventories to net realisable value	–	–	–	–	–	458	–	–	–	458
Unallocated loss on deemed disposals of subsidiaries	–	–	–	–	–	–	–	–	11,027	–
Provision for impairment loss of trade and other receivables	–	–	–	620	–	868	–	–	–	1,488
Deficits on revaluation of property, plant and equipment	–	–	–	–	–	26,976	–	–	–	26,976
Assets in disposal group classified as held for sale – loss on re-measurement to fair value less costs to sell	1,730	–	–	–	11,540	–	2,140	–	15,410	–
Impairment loss of goodwill	253,030	–	–	–	–	–	–	754	253,030	754
Unallocated impairment loss of goodwill	–	–	–	–	–	–	–	–	–	327
	253,030	–	–	–	–	–	–	754	253,030	1,081
Gain on disposal of a subsidiary	–	–	5,438	–	–	–	–	–	5,438	–
Unallocated gain on disposal of a subsidiary	–	–	–	–	–	–	–	–	842	281

6. SEGMENT INFORMATION (Continued)

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	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue																
Sales to external customers																
– continuing operations	7,810	12,830	135	440	3,117	8,781	–	795	1,784	6,005	–	–	–	–	12,846	28,851
– discontinued operations	–	–	–	–	6,418	11,744	–	–	–	–	–	673	–	14,379	6,418	26,796
	7,810	12,830	135	440	9,535	20,525	–	795	1,784	6,005	–	673	–	14,379	19,264	55,647
Segment assets	729,897	700,880	–	–	110,700	169,308	–	–	–	–	–	–	–	–	840,597	870,188
Capital expenditure																
Property, plant and equipment	134	5,137	–	–	1,195	39	–	–	–	–	–	–	–	–	1,329	5,176
Exploration and evaluation assets	–	–	–	–	6,566	8,572	–	–	–	–	–	–	–	–	6,566	8,572
	134	5,137	–	–	7,761	8,611	–	–	–	–	–	–	–	–	7,895	13,748

7. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on bank and other borrowings due within one year	**624**	140	**–**	–	**624**	140
Finance leases	**13**	30	**–**	–	**13**	30
Imputed interest on convertible bonds (note 32)	**21,884**	3,065	**–**	–	**21,884**	3,065
	22,521	3,235	**–**	–	**22,521**	3,235

8. LOSS BEFORE INCOME TAX

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

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cost of inventories recognised as expense	**10,506**	21,316	**6,513**	22,167	**17,019**	43,483
— including write-down of inventories to net realisable value	**–**	–	**–**	458	**–**	458
Depreciation (note)						
— owned assets	**2,170**	1,756	**1,185**	6,542	**3,355**	8,298
— leased assets	**94**	103	**–**	–	**94**	103
	2,264	1,859	**1,185**	6,542	**3,449**	8,401
Amortisation of prepaid lease payments	**–**	–	**244**	299	**244**	299
Operating lease charges on land and buildings	**6,936**	3,187	**154**	287	**7,090**	3,474
Auditors' remuneration	**494**	800	**–**	9	**494**	809
Loss of disposals of property, plant and equipment**	**2,090**	490	**–**	–	**2,090**	490
Impairment loss of goodwill (note 19)	**253,030**	327	**–**	754	**253,030**	1,081
Bad debts written off**	**–**	–	**11,720**	–	**11,720**	–
Loss on deemed disposal of subsidiaries (note 39) **	**11,027**	–	**–**	–	**11,027**	–
Provision for impairment loss of trade and other receivables**	**–**	620	**–**	868	**–**	1,488
Outgoings in respect of leasing properties	**1,545**	905	**–**	–	**1,545**	905
Exchange difference, net	**400**	321	**–**	(1)	**400**	320
Assets in disposal group classified as held for sale — loss on re-measurement to fair value less costs to sell **	**1,730**	–	**13,680**	–	**15,410**	–
Staff costs, including directors' emoluments (note 14)	**20,807**	16,136	**1,500**	3,359	**22,307**	19,495

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

Note: Depreciation expenses of HK$810,000 (2007: HK$5,779,000) has been included in cost of sales and HK$2,639,000 (2007: HK$2,622,000) 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:

	2008 **HK$'000**	2007 HK$'000
Loss before income tax	**(348,482)**	(78,561)
Tax at the applicable rates to profit in the tax jurisdictions concerned	**(79,279)**	(19,423)
Tax effect of non-taxable income	**(2,030)**	(1,368)
Tax effect of non-deductible expenses	**76,132**	8,535
Tax effect of unrecognised temporary differences	**57**	9,341
Tax effect of tax losses not recognised	**5,120**	2,915
Income tax expense	**–**	–

10. DIVIDENDS

The board of directors did not recommend any payment of dividends during the year (2007: Nil).

11. DISCONTINUED OPERATIONS

As mentioned in note 1, the business of carpet manufacturing was carried out by its subsidiaries, namely HZOCM and 唐山勝盟 (collectively referred to as the "Carpet Manufacturing Group") whilst the business of goods trading was carried out by the Group's other subsidiaries, namely Wise Mount and Win Alliance (collectively referred to as the "Goods Trading Business Group").

As these two business segments had been suffering persistent losses and there will be no significant improvement in the near future in these operations, on 4 December 2008, the Group entered into two separate sale and purchase agreements to dispose of the Carpet Manufacturing Group and the Goods Trading Business Group. The Carpet Manufacturing Group and the Goods Trading Business Group are collectively referred to as the Discontinued Operations (notes 1 and 26).

11. DISCONTINUED OPERATIONS (Continued)

Details of the disposals of the Carpet Manufacturing Group and the Goods Trading Business Group are set out in the Company's circular dated 12 January 2009. The disposals of the Carpet Manufacturing Group and the Goods Trading Business Group were completed in March and February 2009 respectively. These two business segments are presented as Discontinued Operations in accordance with HKFRS 5.

An analysis of the results and cash flows of the Discontinued Operations included in the consolidated income statement and the consolidated cash flow statement is as follows:

	2008			2007		
	The Carpet Manufacturing Business HK$'000	The Goods Trading Business HK$'000	Total HK$'000	The Carpet Manufacturing Business HK$'000	The Goods Trading Business HK$'000	Total HK$'000
Revenue	6,418	–	6,418	11,745	15,051	26,796
Other income	21	–	21	216	–	216
Expenses	(10,364)	(12,060)	(22,424)	(20,550)	(16,618)	(37,168)
Deficits on revaluation of property, plant and equipment	–	–	–	(26,976)	–	(26,976)
	(3,925)	(12,060)	(15,985)	(35,565)	(1,567)	(37,132)
Income tax expense	–	–	–	–	–	–
	(3,925)	(12,060)	(15,985)	(35,565)	(1,567)	(37,132)
Loss on re-measurement to fair value less costs to sell	(11,540)	(2,140)	(13,680)	–	–	–
Loss for the year from discontinued operations	(15,465)	(14,200)	(29,665)	(35,565)	(1,567)	(37,132)
Operating cash flows	2	(1)	1	74	(3)	71
Investing cash flows	(153)	–	(153)	(27)	–	(27)
Total cash flows	(151)	(1)	(152)	47	(3)	44

Depreciation of property, plant and equipment and amortisation of prepaid land lease payments of the Discontinued Operations are set out in note 8.

11. DISCONTINUED OPERATIONS (Continued)

Employee benefit expense of the Discontinued Operations for the year is set out in note 14.

Assets and liabilities of the Discontinued Operations as at 31 December 2008 are set out in note 26 to the financial statements in details.

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to the equity holders of the Company of HK$341,321,000 (2007: HK$79,129,000), a loss of HK$54,670,000 (2007: HK$151,756,000) has been dealt with in the financial statements of the Company.

13. LOSS PER SHARE

The calculations of basic and diluted losses per share attributable to the equity holders of the Company are based on the following data:

	2008 HK$'000	2007 HK$'000
Loss		
Loss for the year attributable to the equity holders of the Company for the purpose of basic loss per share	**(341,321)**	(79,129)
Effect of dilutive potential ordinary shares:		
Imputed interest on convertible bonds	**21,884**	3,065
Loss for the year attributable to the equity holders of the Company for the purpose of diluted loss per share	**(319,437)**	(76,064)

	2008	2007
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss for per share	**2,150,465,902**	838,233,260
Effect of dilutive potential ordinary shares:		
Convertible bonds	**1,126,333,333**	472,333,333
Weighted average number of ordinary shares for the purpose of diluted loss per share	**3,276,799,235**	1,310,566,593

13. LOSS PER SHARE (Continued)

No diluted loss per share attributable to the equity holders of the Company is presented for the years ended 31 December 2008 and 2007 as the potential ordinary shares have anti-dilutive effect.

From continuing operations

The calculations of basic and diluted losses per share from continuing operations attributable to the equity holders of the Company are based on the following data:

	2008 HK$'000	2007 HK$'000
Loss for the year attributable to the equity holders of the Company for the purpose of basic loss per share	(341,321)	(79,129)
Loss for the year from Discontinued Operations	(29,665)	(37,132)
Less: Loss for the year attributable to minority interests from Discontinued Operations	(3,617)	—
Loss for the year attributable to the equity holders of the Company from Discontinued Operations	(26,048)	(37,132)
Loss for the year attributable to the equity holders of the Company for the purpose of basic loss per share from continuing operations	(315,273)	(41,997)
Effect of dilutive potential ordinary shares:		
Imputed interest on convertible bonds	21,884	3,065
Loss for the purpose of diluted loss per share attributable to the equity holders of the Company from the continuing operations	(293,389)	(38,932)

No diluted loss per share from continuing operations attributable to the equity holders of the Company is presented for the years ended 31 December 2008 and 2007 as the potential ordinary shares have anti-dilutive effect.

13. LOSS PER SHARE (Continued)

From discontinued operations

Basic loss per share attributable to the equity holders of the Company from Discontinued Operations is HK1.2 cents per share (2007: loss of HK4.4 cents per share), based on the loss for the year attributable to the equity holders of the Company from Discontinued Operations of approximately HK$26,048,000 (2007: loss of approximately HK$37,132,000) and the denominators detailed above.

No diluted loss per share attributable to the equity holders of the Company from Discontinued Operations is presented for the years ended 31 December 2008 and 2007 as the potential ordinary shares have anti-dilutive impact.

14. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Wages, salaries and allowances	**20,434**	15,813	**1,410**	3,359	**21,844**	19,172
Pension costs — defined contribution plans	**373**	323	**90**	–	**463**	323
	20,807	16,136	**1,500**	3,359	**22,307**	19,495

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	Notes	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Contribution to retirement benefit scheme HK$'000	Total HK$'000
2008					
Executive directors					
Mr. Law Fei Shing		–	1,800	12	1,812
Mr. So Chi Keung	(i)	–	100	5	105
Mr. Fok Po Tin	(ii)	–	–	–	–
Mr. Leung Kai Hung	(iii)	–	50	2	52
Mr. Sun Tak Yan, Desmond	(iv)	–	71	4	75
Mr. Yeung Delon	(v)	–	220	11	231
Mr. Tam Owen		–	1,600	10	1,610
Dr. Yuen Clement Ming Kai	(vi)	–	2,850	12	2,862
Mr. Chan Sung Wai	(vii)	–	–	–	–
Non-executive director					
Mr. Lam Shing Tsun, Edmond		80	–	–	80
Independent non-executive directors					
Mr. Lum Pak Sum		60	–	–	60
Mr. Sun Tak Keung		30	–	–	30
Mr. Wan Hon Keung	(viii)	28	–	–	28
Mr. Chow Pui Fung	(ix)	–	–	–	–
		198	6,691	56	6,945

Notes

(i) Resigned on 12 November 2008.
(ii) Resigned on 16 April 2009.
(iii) Resigned on 29 October 2008.
(iv) Appointed on 14 July 2008 and resigned on 12 November 2008.
(v) Resigned on 18 November 2008.
(vi) Resigned on 1 November 2008.
(vii) Appointed on 1November 2008.
(viii) Resigned on 30 November 2008.
(ix) Appointed on 30 November 2008.

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

(a) Directors' emoluments (Continued)

	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

(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.

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

(a) Directors' emoluments (Continued)

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 (2007: Nil).

During the year, the Group received written consents from certain existing directors of the Company to waive the remuneration of an aggregate amount of HK$336,000 payable to them. In 2007, the Group received a written consent from an ex-director of the Company to waive the remuneration of HK$304,000 payable to him.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year included 3 directors (2007: 4) and their emoluments are reflected in the above analysis. Details of the emoluments of the remaining 2 individuals (2007: 1) during the year, which fell within the emolument band of HK$1,000,001 - HK$2,000,000 (2007: HK$2,000,001 - HK$2,500,000), are as follows:

	2008 HK$'000	2007 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**2,740**	2,200
Contribution to retirement benefit scheme	**10**	—
	2,750	2,200

During the year, no emoluments were paid by the Group to the above highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2007: Nil).

16. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Buildings at the mining site HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000	CIP HK$'000	Total HK$'000
At 1 January 2007						
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
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 37)	–	–	1,892	2,882	6,784	11,558
Disposals	–	–	–	(505)	–	(505)
Disposals of subsidiaries (note 38(c))	–	–	–	(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

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Group (Continued)

	Buildings at the mining site HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000	CIP HK$'000	Total HK$'000
Year ended 31 December 2008						
Opening net book amount	–	18,810	12,609	10,926	6,784	49,129
Transferred from exploration and evaluation assets (note 21)	–	–	–	–	2,002	2,002
Additions	–	–	–	439	890	1,329
Transfer	2,892	–	–	–	(2,892)	–
Disposals	–	–	–	(2,126)	–	(2,126)
Disposals of subsidiaries (note 38(b))	–	–	–	(30)	–	(30)
Reclassified as assets held for sale (note 26)	–	(19,960)	(12,496)	(1,268)	(6,784)	(40,508)
Deemed disposals of subsidiaries (note 39)	–	–	–	(4,057)	–	(4,057)
Exchange differences	–	1,397	806	216	–	2,419
Depreciation	–	(247)	(919)	(2,283)	–	(3,449)
Closing net book amount	**2,892**	**–**	**–**	**1,817**	**–**	**4,709**
At 31 December 2008						
Valuation	**2,892**	**–**	**–**	**5,354**	**–**	**8,246**
Accumulated depreciation	**–**	**–**	**–**	**(3,537)**	**–**	**(3,537)**
Net book amount	**2,892**	**–**	**–**	**1,817**	**–**	**4,709**

As at 31 December 2008, the directors carried out a valuation to determine the fair value of the property, plant and equipment. The fair values estimated by the directors using depreciated replacement cost approach do not differ significantly from their carrying amounts and no revaluation adjustment has been recognised in the current year. The effective date of the revaluation was on 31 December 2008.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Group (Continued)

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

	2008 HK$'000	2007 HK$'000
Buildings at the mining site	**2,892**	—
Buildings	**–**	18,810
Plant and machinery	**–**	12,609
Leasehold improvements, furniture, office equipment and motor vehicles	**1,817**	10,926

Included in the property, plant and equipment are the costs of approximately HK$474,000 (2007: HK$474,000) held under a finance lease and the related accumulated depreciation is HK$355,000 (2007: HK$261,000).

Buildings in the mining site are located in the PRC under short-term lease.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Company

	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000
At 1 January 2007	
Valuation	438
Accumulated depreciation	(177)
Net book amount	261
Year ended 31 December 2007	
Opening net book amount	261
Disposals	(2)
Depreciation	(102)
Closing net book amount	157
At 31 December 2007	
Valuation	435
Accumulated depreciation	(278)
Net book amount	157
Year ended 31 December 2008	
Opening net book amount	157
Additions	16
Depreciation	(90)
Closing net book amount	**83**
At 31 December 2008	
Valuation	451
Accumulated depreciation	(368)
Net book amount	**83**

17. PREPAID LEASE PAYMENTS — GROUP

These represented the Group's 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:

	2008 HK$'000	2007 HK$'000
Opening net carrying amount	**13,926**	4,912
Acquisition of a subsidiary (note 37(a))	**—**	9,000
Exchange differences	**380**	313
Amortisation of prepaid operating lease payments	**(244)**	(299)
Reclassified as assets in disposal group classified as held for sale (note 26)	**(14,062)**	—
Closing net carrying amount	**—**	13,926

As at 31 December 2008, the Group has not yet obtained the relevant land use rights certificate for prepaid lease payments with the carrying amount of approximately HK$8,640,000 (2007: HK$8,820,000) which has been reclassified as assets held for sale (note 26). The Group's legal advisors have confirmed that the Group has the rightful and equitable title to use the leasehold land.

18. INTERESTS IN SUBSIDIARIES — COMPANY

	Notes	2008 HK$'000	2007 HK$'000
Investments			
— Unlisted shares, at cost	(a)	**76,432**	76,432
Due from subsidiaries	(b)	**1,227,147**	870,254
Due to a subsidiary	(b)	**(5)**	(8)
Loans to a subsidiary	(c)	**11,956**	9,996
		1,315,530	956,674
Provision for impairment losses		**(316,929)**	(295,279)
		998,601	661,395

18. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Movement in the provision for impairment of interests in subsidiaries is as follows:

	2008 HK$'000	2007 HK$'000
At 1 January	**(295,279)**	(170,183)
Additional impairment during the year	**(21,650)**	(125,096)
At 31 December	**(316,929)**	(295,279)

Notes:

(a) Particulars of the principal subsidiaries as at 31 December 2008 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
Indirectly held				
HZOCM **	PRC	US$4,940,000	100%	Manufacture and sale of carpets, PRC
Orient Finance (Hong Kong) Limited *	Hong Kong	Ordinary HK$10,000	100%	Provision of finance, Hong Kong
Orient Carpet **	Hong Kong	Ordinary HK$10,000	100%	Investment holding and trading of carpets, Hong Kong

18. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Notes: (Continued)

(a) Particulars of the principal subsidiaries as at 31 December 2008 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 (Continued)				
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
Wellspark Holdings Limited	Hong Kong	Ordinary HK$1	100%	Investment holding, Hong Kong
Win Alliance **	Hong Kong	Ordinary HK$1,000,000	70%	Trading of goods, Hong Kong
唐山勝盟 **	PRC	US$61,800	70%	Manufacture of carpets, PRC
Kanson Development Limited ("Kanson")	British Virgin Islands	Ordinary US$200	100%	Investment holding, Hong Kong
Hong Kong Forest Source Mining Industry Holding Company Limited* ("HKFSMI")	Hong Kong	Ordinary HK$70,000,000	100%	Investment holding, Hong Kong
BJFSMI **	PRC	RMB15,000,000	100%	Mineral dressing and trading of mineral resources, PRC
Qinghai Forest Source Mining Industry Developing Company Limited ("QHFSMI")	PRC	HK$40,000,000	100%	Exploration of mine, PRC
626 Limited	Hong Kong	Ordinary HK$1	100%	Trading of carpets, Hong Kong
Hong Kong Forest Source Mining Industry Development Company Limited	Hong Kong	Ordinary HK$1	100%	Dormant, Hong Kong
Ho Fai Carpet Trading Limited	Hong Kong	Ordinary HK$1	100%	Trading of carpets, Hong Kong

* Subsidiaries audited by Grant Thornton Hong Kong.
** Subsidiaries are included in disposal group (note 26).

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.

18. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Notes: (Continued)

(b) These amounts 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.

(c) These are unsecured loans provided to its subsidiary, Kanson and are not repayable within 12 months from the balance sheet date. Interest is charged on the outstanding balance at the rate of HIBOR plus 1% per annum.

19. GOODWILL — GROUP

	2008 HK$'000	2007 HK$'000
At 1 January		
Gross carrying amount	**684,066**	71,500
Accumulated impairment	**(72,581)**	(71,500)
Net carrying amount	**611,485**	—
Opening net carrying amount	**611,485**	—
Acquisitions of subsidiaries (note 37(c))	**—**	612,566
Acquisition of additional interests in a subsidiary (note 37(d))	**337,578**	—
Impairment losses	**(253,030)**	(1,081)
Closing net carrying amount	**696,033**	611,485
At 31 December		
Gross carrying amount	**1,021,644**	684,066
Accumulated impairment	**(325,611)**	(72,581)
Net carrying amount	**696,033**	611,485

The carrying amount of goodwill at 31 December 2008 represents the aggregate of the goodwill arsing from the excess of the cost of the investment in Kanson over the Group's interest over the net fair value of Kanson's identifiable assets, liabilities and contingent liabilities for the acquisition of 51% equity interest in Kanson made during 2007 (note 37(c)) and the goodwill arising from the excess of the additional cost of the investment in Kanson over the Group's interest over the related net carrying value of Kanson's identifiable assets, liabilities and contingent liabilities for the acquisition of the remaining 49% equity interest in Kanson made during the year (note 37(d)). Details of these transactions are set out in the Company's circulars dated 15 October 2007 and 6 June 2008.

19. GOODWILL — GROUP (Continued)

Goodwill at 31 December 2007 and 2008 arose from the acquisitions of Kanson and represented the future economic benefits from a mining project. The goodwill of approximately HK$327,000 and HK$754,000 arising from the acquisitions of Go On (note 37(b)) and Win Alliance (note 37(a)) respectively had been fully impaired in 2007.

As at 31 December 2007 and 2008, QHFSMI, a wholly owned 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 (Asia-Pacific) Surveyors Limited, 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 consulting geologists and engineer and expectations for the market development and that the Group is able to obtain the mining rights of the underlying mine from the relevant authorities in the PRC in future and is able to raise fund to finance and develop the mining project. The discount rate on which management has based is determined with reference to specific risks relating to the mining industry and the mining project.

Given the significant price decline of global commodities (e.g. direct reduced iron powder and high grade titanium oxide) which has negative impacts on the future economic benefits from the mining project and the global financial turmoil which limits the ways of fund raising to meet the future funding requirement of the mining project, the Group had decided to slow down the license application for the mining project until further funding is secured. The thirteen-year forecast was adjusted in 2008 and this resulted in reduction of goodwill associated with the mining project. The related impairment loss of approximately HK$253,030,000 had been provided.

The discount rates and parameters used in determining the discount rate are shown as below:

	2008	2007
Discount rate	**20.0%**	16.4%
Inflation rate	**2%**	2%
Initial life of the project	**13 years**	13 years

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.

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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 an agreement such that, to assume the Group's obligations to contribute approximately US$4,070,000 (HK$31,725,000 equivalent) to the registered capital of Hebei Da Sheng Warranty Company Limited ("Hebei Da Sheng"), 51% previously owned by the Group, the Group agreed to allot and issue 804 ordinary shares of Aurora Logistic Finance Group Inc. ("Aurora Logistic Finance"), previously a 100% subsidiary of the Company, of US$1.00 each to Capital Gain. As a result, the Company's interest in the Aurora Logistic Finance and its subsidiaries (the "Deemed Disposal Group") was diluted from 100% to 19.6%. The balance of available-for-sale financial assets as at 31 December 2008 represented the cost of 19.6% equity interest in the Deemed Disposal Group. Details of the calculation are set out in note 39 to the financial statements.

	2008 **HK$'000**	2007 HK$'000
Unlisted equity securities, at cost	**12,091**	—

These assets are stated at cost less impairment as the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

21. EXPLORATION AND EVALUATION ASSETS — GROUP

	2008 **HK$'000**	2007 HK$'000
At 1 January	**27,636**	—
Acquisition of a subsidiary (note 37(c))	**—**	19,064
Additions during the year	**6,566**	8,572
Transferred to property, plant and equipment (note 16)	**(2,002)**	—
Exchange differences	**2,053**	—
At 31 December	**34,253**	27,636

21. EXPLORATION AND EVALUATION ASSETS — GROUP (Continued)

The breakdown of intangibles assets are as follows:

	2008 HK$'000	2007 HK$'000
Exploration license	**1,371**	1,277
Technical feasibility studies	**6,884**	3,099
Exploratory drilling	**20,263**	18,085
Sampling	**5,735**	3,173
CIP	**–**	2,002
Closing net carrying amount	**34,253**	27,636

During the year, a preliminary application for the registration of the mineral resources of a mining project was prepared for submission to the Ministry of Land and Resources of the PRC.

22. INVENTORIES — GROUP

	2008 HK$'000	2007 HK$'000
Raw materials	**–**	1,869
Work in progress	**–**	51
Finished goods	**–**	2,234
	–	4,154

23. TRADE AND BILLS RECEIVABLES — GROUP

The Group normally allows trading credit terms ranging from 30 to 120 days to its established customers. Each customer has a maximum credit limit. Trade debtors with balances aged over 120 days are required to settle all outstanding balances before any further credit is granted. In view of this, 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:

	2008 HK$'000	2007 HK$'000
1-90 days	**43**	7,871
91-120 days	**—**	5,899
121-365 days	**—**	3,449
Over 1 year	**—**	2,677
	43	19,896
Less : Provision for impairment of trade receivables	**—**	(2,677)
Trade and bills receivables — net	**43**	17,219

Movements in the provision for impairment of trade receivables are as follows:

	2008 HK$'000	2007 HK$'000
At 1 January	**(2,677)**	(1,737)
Additions	**—**	(940)
Disposals of subsidiaries (note 38(b))	**2,357**	—
Reclassified as assets in disposal group classified as held for sale (note 26(a))	**320**	—
At 31 December	**—**	(2,677)

At 31 December 2008, there was no trade receivables that were individually determined to be impaired. At 31 December 2007, trade receivables of the Group amounting to approximately HK$2,677,000 were individually determined to be impaired. These impaired receivables related to the customers that were in financial difficulties and management assessed only a portion of the receivables was expected to be recovered. The Group did not hold any collateral over these balances.

23. TRADE AND BILLS RECEIVABLES — GROUP (Continued)

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

	2008 HK$'000	2007 HK$'000
Neither past due nor impaired	–	9,193
Past due of less than 120 days but not impaired	43	5,899
Past due of 120 to 365 days but not impaired	–	2,127
	43	17,219

Receivables as at 31 December 2007 that were neither past due nor impaired related to wide range of customers for whom there were no recent history of default.

Receivables as at 31 December 2007 that were past due but not impaired related to a number of customers that had 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.

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:

	2008 HK$'000	2007 HK$'000
US dollar ("USD")	–	11,720
Renminbi ("RMB")	–	985

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVALES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**97**	640	**14**	51
Deposits	**563**	5,511	**–**	15
Other receivables (Note)	**30,338**	89,763	**–**	280
	30,998	95,914	**14**	346

Note:

Included in other receivables of the Group at 31 December 2008 are loan receivables of HK$29,229,000 (2007: HK$77,015,000) due from independent third parties. Loan receivables of HK$29,229,000 (2007: 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, as at 31 December 2007, loan receivables of HK$47,372,000 were unsecured, bore annual fixed interest ranging from 8.00% to 11.23% and were de-consolidated as a result of deemed disposal of subsidiaries during the year (note 39). These loan receivables that were not impaired related to individuals who had no recent financial difficulty.

25. CASH AT BANKS AND IN HAND — GROUP

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

Included in the cash at banks and in hand of the Group is HK$1,000 (2007: HK$2,032,000) 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.

26. ASSETS AND LIABILITIES IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE — GROUP

As described in notes 1 and 11 to the financial statements, on 4 December 2008, the Group entered into a sale and purchase agreement such that the entire issued share capital of Wise Mount is to be sold to an independent third party for a consideration of HK$30,000. The disposal of Wise Mount and its subsidiaries was completed in February 2009.

26. ASSETS AND LIABILITIES IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE — GROUP (Continued)

On 4 December 2008, the Group also entered into a separate sale and purchase agreement such that the entire issued share capital of Orient Carpet is to be sold to an independent third party in the way that the total amount of HK$19.3 million of which (a) HK$12.2 million would be used to set off against the net current liabilities of HZOCM being a subsidiary of Orient Carpet and assumed by the independent third party and (b) HK$7.1 million would be used to set off against the net current liabilities of Orient Carpet and assumed by the independent third party. The disposal of Orient Carpet and its subsidiaries was completed in March 2009.

On 29 October 2008, another sale and purchase agreement was entered into between the Group and another independent third party such that the entire 100% equity interests held by the Group in one of its subsidiaries in the PRC, namely BJFSMI, is to be disposed of for a consideration of HK$10.0 million. BJFSMI is principally engaged in mineral dressing and trading of mineral resources in the PRC. The disposal of BJFSMI was completed in January 2009. As the Group continues to be engaged in exploration of mines, this disposal is not included in the Discontinued Operations.

The directors have assessed the carrying amount of the relevant assets and liabilities of Wise Mount and its subsidiaries, Orient Carpet and its subsidiaries, and BJFSMI (collectively referred to as the "Disposal Group") with reference to the sale and purchase agreements dated on 4 December 2008 and 29 October 2008 and the net total consideration was approximately HK$10.0 million.

At 31 December 2008, the net assets of the Disposal Group attributable to the Group amounted to approximately HK$25.4 million, which represented the total net assets of approximately HK$26.7 million less net assets attributable to minority interests of approximately HK$1.3 million, and resulted in a loss on re-measurement to fair value less costs to sell amounting to approximately HK$15.4 million (note 11). Included in the HK$15.4 million is the loss of HK$1.7 million attributable to BJFSMI and Orient Carpet which are not discontinued operations; therefore, the amount is included in the results of continuing operations.

26. ASSETS AND LIABILITIES IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE — GROUP (Continued)

Major classes of assets and liabilities of the Disposal Group at 31 December 2008 which are classified as assets held for sale are as follows:

	Carrying amount as at 31 December 2008 HK$'000	Carrying amount upon being classified as held for sale HK$'000
Assets		
Property, plant and equipment (note 16(a))	26,736	40,508
Prepaid lease payments (note 17)	14,062	14,062
Inventories	7,321	7,321
Prepayments, deposits and other receivables	10,113	11,751
Trade receivables (note (a))	1,851	1,851
Cash and bank balances	1,506	1,506
Assets in Disposal Group classified as held for sale	61,589	76,999
Liabilities		
Trade payables (note (b))	(17,582)	(17,582)
Other payables and accruals (note 28)	(26,725)	(26,725)
Other borrowings (note (c))	(5,964)	(5,964)
Liabilities in Disposal Group classified as held for sale	(50,271)	(50,271)
Net assets classified as held for sale	11,318	26,728

26. ASSETS AND LIABILITIES IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE — GROUP (Continued)

Notes

(a) Trade receivables

Trade receivables are denominated in RMB and generally have credit terms ranging from 30 to 120 days to established customers. Ageing analysis of the Disposal Group's trade receivables, net provision, as at 31 December 2008, based on the date of recognition of the sale, is as follows:

	HK$'000
1-90 days	**1,276**
91-120 days	**55**
121-365 days	**520**
Over 1 year	**320**
	2,171
Less: Provision for impairment of trade receivables	**(320)**
	1,851

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

	HK$'000
Neither past due nor impaired	**161**
Past due of less than 120 days but not impaired	**1,170**
Past due of 120 to 365 days but not impaired	**520**
Past due of more than 365 days but not impaired	**—**
	1,851

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

Receivables that were past due but not impaired relate 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.

(b) Trade payables

Ageing analysis of the trade payables of the Disposal Group at 31 December 2008, based on the receipts of goods purchased, is as follows:

	HK$'000
1-90 days	**1,307**
91-120 days	**79**
121-365 days	**14,317**
Over 1 year	**1,879**
	17,582

26. ASSETS AND LIABILITIES IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE — GROUP (Continued)

Notes (Continued)

(b) Trade payables (Continued)

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

	HK$'000
USD	**11,521**
RMB	**6,061**

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

(c) Other borrowings

These were unsecured and bore interest at the fixed rate of 12% per annum and were repayable with one-month notice by the lender.

27. TRADE PAYABLES — GROUP

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

	2008 **HK$'000**	2007 HK$'000
1-90 days	–	9,017
91-120 days	–	5,696
121-365 days	–	2,306
Over 1 year	–	2,685
	–	19,704

27. TRADE PAYABLES — GROUP (Continued)

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

	2008 HK$'000	2007 HK$'000
USD	–	11,521
RMB	–	4,315

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

28. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Deposits received	5,000	6,822	5,000	—
Other payables and accruals (Note)	8,755	36,200	2,779	6,891
	13,755	43,022	7,779	6,891

Note:

Included in the balance as at 31 December 2007 was a payable of HK$8,793,000 which represented the unsettled value added tax and the corresponding penalty payable estimated and billed by the PRC local tax authority in 2006. No further penalty was imposed by the PRC local tax authority during 2007 and 2008. The balance as at 31 December 2008 has been classified as liabilities in Disposal Group classified as held for sale (note 26).

29. 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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**102**	102	**97**	91
In the second year	**34**	102	**33**	96
In the third to fifth years, inclusive	**–**	34	**–**	34
Total minimum finance lease payments	**136**	238	**130**	221
Future finance charges on finance lease payments	**(6)**	(17)		
Total net finance lease payables	**130**	221		
Less : Amounts classified as current liabilities	**(97)**	(91)		
Amounts included under non-current liabilities	**33**	130		

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.

30. BANK AND OTHER BORROWINGS — GROUP

	2008	2007
	HK$'000	HK$'000
Other loans, unsecured and repayable within one year	**–**	5,340

At 31 December 2007, the Group's other loans bore interest at the fixed rate of 12% per annum and was payable with one-month notice. The balance as at 31 December 2008 has been classified as liabilities in Disposal Group classified as held for sale (note 26(c)).

31. AMOUNTS DUE TO MINORITY SHAREHOLDERS

These were unsecured, interest free and were not repayable within the next twelve months from the balance sheet date. The balance was de-consolidated as a result of deemed disposal and disposal of subsidiaries during the year.

32. CONVERTIBLE BONDS — GROUP AND COMPANY

On 5 November 2007, the Company issued zero coupon convertible bonds (the "CB1") in the principal amount of HK$365,000,000 as a part of the consideration for the acquisition of 51% equity interests in Kanson. The CB1 bear no interest with a maturity date on 4 November 2012 (the "Maturity Date of CB1") 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, capitalisation issues and rights issues) at any time after the issue date. The details of the CB1 are set out in the Company's circular dated on 15 October 2007.

On 3 July 2008, the Company issued zero coupon convertible bonds (the "CB3") in the principal amount of HK$580,000,000 as the consideration for the acquisition of the remaining 49% equity interests in Kanson. The CB3 bear no interest with maturity date on 2 July 2013 (the "Maturity Date of CB3") and are convertible into shares of the Company at the conversion price of HK$0.25 per share (subject to the standard adjustment clauses relating to share sub-division, share consolidation, capitalisation issues and rights issues) at any time after the issue date. The details of the CB3 are set out in the Company's circular dated on 6 June 2008.

The fair value of the liability components, included in the CB1 and CB3, 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.

32. CONVERTIBLE BONDS — GROUP AND COMPANY (Continued)

The CB1 and CB3 recognised in the balance sheet are calculated as follows:

	CB1 HK$'000	CB3 HK$'000	Total HK$'000
Face value of convertible bonds issued	365,000	580,000	945,000
Proceeds of issue (fair value on initial recognition)	365,467	363,506	728,973
Equity component	(189,421)	(103,438)	(292,859)
Liability component	176,046	260,068	436,114

Movement of liability component

Movement of liability component for the years ended 31 December 2008 and 2007 is as follows:

	2008		
	CB1 HK$'000	**CB3** HK$'000	**Total** HK$'000
At 1 January 2008	**139,671**	**—**	**139,671**
Liability component on initial recognition	**—**	**260,068**	**260,068**
Exercise of the convertible bonds	**(64,276)**	**(164,685)**	**(228,961)**
Imputed interest expenses (note 7)	**13,019**	**8,865**	**21,884**
At 31 December 2008	**88,414**	**104,248**	**192,662**

	2007		
	CB1 HK$'000	**CB3** HK$'000	**Total** HK$'000
At 1 January 2007	—	—	—
Liability component on initial recognition	176,046	—	176,046
Exercise of the convertible bonds	(39,440)	—	(39,440)
Imputed interest expenses (note 7)	3,065	—	3,065
At 31 December 2007	139,671	—	139,671

32. CONVERTIBLE BONDS — GROUP AND COMPANY (Continued)

Movement of equity component

Movement of equity component for the years ended 31 December 2008 and 31 December 2007 is as follows:

		2008	
	CB1	**CB3**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2008	**147,261**	**—**	**147,261**
Equity component on initial recognition	**—**	**103,438**	**103,438**
Issue of shares on conversion	**(65,389)**	**(64,938)**	**(130,327)**
At 31 December 2008	**81,872**	**38,500**	**120,372**

		2007	
	CB1	**CB3**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2007	—	—	—
Equity component on initial recognition	189,421	—	189,421
Issue of shares on conversion	(42,160)	—	(42,160)
At 31 December 2007	147,261	—	147,261

The fair value of the liability components of CB1 and CB3 at the dates of issue amounted to approximately HK$176 million and HK$260 million respectively.

Interest expense on the bonds is calculated using the effective interest rate method by applying interest rate of 15.7% and 17.4% per annum to the liability components of CB1 and CB3 respectively.

During the year, 210,000,000 (2007: 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 CB1. As a result, there was an increase in the share capital and share premium of HK$2,100,000 (2007: HK$1,360,000) (note 34(f)) and HK$127,565,000 (2007: HK$80,240,000) respectively.

During the year, 1,456,000,000 ordinary shares were issued in aggregate, at the conversion price of HK$0.25 per share, to the bond holders upon the conversion of the CB3. As a result, there was an increase in the share capital and share premium of HK$14,560,000 (note 34(g)) and HK$215,063,000 respectively.

32. CONVERTIBLE BONDS — GROUP AND COMPANY (Continued)

Movement of equity component (Continued)

Subsequent to the balance sheet date, another 195,000,000 and 832,000,000 ordinary shares were issued to the bond holders upon the conversion of CB1 and CB3 respectively. As a result, there was a further increase in the share capital and share premium of HK$10,270,000 and HK$257,213,000 respectively. Accordingly, the liability component of CB1 and CB3 decreased by HK$67,026,000 and HK$102,632,000 respectively; and the equity component of CB1 and CB3 decreased by HK$60,718,000 and HK$37,107,000 respectively. These conversions have not yet been reflected in the financial statements for the year ended 31 December 2008.

33. DEFERRED TAX LIABILITIES — GROUP AND COMPANY

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**65,546**	45,188	**—**	—

Deferred tax assets have not been recognised 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$38,598,000 (2007: HK$36,061,000) which will expire as follows :

	2008	2007
	HK$'000	HK$'000
2008	**—**	1,206
2009	**9,667**	9,667
2010	**6,117**	6,117
2011	**12,348**	12,348
2012	**6,723**	6,723
2013	**3,743**	—
	38,598	36,061

At 31 December 2008, there is no significant unrecognized deferred tax liability (2007: Nil).

34. SHARE CAPITAL

	Notes	2008 Number of shares '000	2008 HK$'000	2007 Number of shares '000	2007 HK$'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		**1,358,720**	**13,587**	551,900	5,519
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),(g)	**1,666,000**	**16,660**	136,000	1,360
Exercise of share options and issue of shares	(h)	**–**	**–**	25,820	258
At 31 December ordinary shares of HK$0.01 each		**3,024,720**	**30,247**	1,358,720	13,587

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 interests in Win Alliance) in 2006. The directors considered HK$0.40 per share is the fair value with reference to the published price of the share on that day.

(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 in March 2007.

(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 in June 2007.

34. SHARE CAPITAL (Continued)

Notes: (Continued)

(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 in August 2007.

(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 interests in Kanson. The directors considered HK$0.65 per share was the fair value with reference to the published price of the share on that day.

(f) In November 2007, the Company issued the CB1 of HK$365,000,000 at the conversion price of HK$0.60 per share. During the year, 210,000,000 (2007: 136,000,000) new ordinary shares in aggregate were issued, at the conversion price of HK$0.60 per share to the bond holders upon the conversion of the CB1 (note 32). As a result, there was an increase in share capital and share premium of HK$2,100,000 (2007: HK$1,360,000) and HK$127,565,000 (2007: HK$80,240,000) respectively.

(g) On 3 July 2008, the Company issued the CB3 of HK$580,000,000 at the conversion price of HK$0.25 per share. During the year, 1,456,000,000 new ordinary shares in aggregate were issued, at the conversion price of HK$0.25 per share to the bond holders upon the conversion of the CB3 (note 32). As a result, there was an increase in share capital and share premium of HK$14,560,000 and HK$215,063,000 respectively.

(h) In 2007, subscription rights attached to the 25,820,000 share options of the Company were exercised at subscription prices of HK$0.365, HK$0.35 and HK$0.54 per share. As a result, the Company allotted, issued and fully paid 25,820,000 new ordinary shares of HK$0.01 each. A share premium of HK$10,528,000 arose from the issue and allotment of shares. In addition an amount of HK$5,910,000 was transferred from share option reserve to share premium.

All issued new ordinary shares in 2007 and 2008 rank pari passu with other shares in issue in all respect.

35. RESERVE

(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 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 the 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 bonds.

35. RESERVE (Continued)

(b) Company

	Share premium HK$'000	Capital reserves HK$'000	Convertible bond equity reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	100,046	140,667	–	5,910	(189,155)	57,468
Issue of convertible bonds (note 32)	–	–	189,421	–	–	189,421
Issue of shares	363,696	–	–	–	–	363,696
Issue of shares on conversion of convertible bonds (note 34(f))	80,240	–	(42,160)	–	–	38,080
Exercise of share options and issue of shares (note 34(h))	16,438	–	–	(5,910)	–	10,528
Net loss for the year	–	–	–	–	(151,756)	(151,756)
At 31 December 2007 and 1 January 2008	560,420	140,667	147,261	–	(340,911)	507,437
Issue of convertible bonds (note 32)	–	–	103,438	–	–	103,438
Issue of shares on conversion of convertible bonds (note 34(f),(g))	342,628	–	(130,327)	–	–	212,301
Net loss for the year	–	–	–	–	(54,670)	(54,670)
At 31 December 2008	903,048	140,667	120,372	–	(395,581)	768,506

Details of the share premium account of the Company are set out in note 35(a) above.

36. 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, 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 held on 31 October 2007, the general scheme limit of 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 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.

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 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.

36. 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:

	2008 Number	2007 Number
At 1 January	–	25,820,000
Exercised during the year	–	(25,820,000)
At 31 December	–	–

In respect of the share options exercised in 2007, the weighted average share price of the Company at the dates of exercise ranged from HK$0.35 to HK$0.87 per share. The share options exercised during 2007 resulted in the issue of 25,820,000 ordinary shares of the Company (note 34(h)).

There was no share option being granted in 2008 and 2007. As at 31 December 2008 and 2007, the Group has no outstanding share option (2007: Nil).

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

37. BUSINESS COMBINATIONS

(a) Win Alliance

On 15 February 2007, the Group acquired of 70% equity interest in Win Alliance, as described in notes 19 and 34(a), through Wise Mount, a 100% indirectly subsidiary of the Company, at the consideration comprising of cash of HK$5,000,000 and consideration shares with fair value of HK$7,200,000. Win Alliance's principal activity was trading of goods. It had a wholly-owned subsidiary, namely 唐山勝盟, whose principal activity was manufacturing of carpets. Goodwill arising from this acquisition was fully impaired in 2007. Win Alliance became a part of the Discontinued Operations in 2008 and its assets and liabilities are included as assets and liabilities in Disposal Group classified as held for sale as at 31 December 2008 (note 26).

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 34 (a))	**7,200**
Total purchase consideration	**12,200**
Fair value of net identifiable assets acquired	**(11,446)**
Goodwill (note 19)	**754**

37. BUSINESS COMBINATIONS (Continued)

(a) Win Alliance (Continued)

The fair values of the identifiable assets and liabilities arising from the acquisition as at the date of acquisition and the corresponding carrying amounts immediately prior to 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 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 pro forma information was for illustrative purposes only and was 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.

37. BUSINESS COMBINATIONS (Continued)

(b) Go On

As described in note 19 to the financial statements, on 29 March 2007, the Group acquired 100% equity interests in Go On at a cash consideration of HK$2 through a wholly-owned subsidiary, namely Aurora International Enterprises Limited. Goodwill arising from this acquisition was fully impaired in 2007.

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 19)	**327**

The fair values of the identifiable assets and liabilities arising from the acquisition as at the date of acquisition and the corresponding carrying amounts immediately prior to 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)
Purchase consideration in cash		—
Cash at banks and in hand in the subsidiary acquired		—
Cash outflow on acquisition		—

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.

37. BUSINESS COMBINATIONS (Continued)

(b) Go On (Continued)

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 pro forma information was for illustrative purposes only and was 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 19, 32 and 34(e), (f) to the financial statements, on 5 November 2007, the Group entered into a sale and purchase agreement for the acquisition of 51% equity interests in Kanson from Ms. Leung Lai Ching Margaret. Kanson has 100% equity interests in HKFSMI, BJFSMI (included in assets and liabilities in Disposal Group classified as held for sale in 2008 (note 26)) and QHFSMI, 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 CB1 issued (note 32)	**365,467**
— Fair value of shares issued (note 34(e))	**175,500**
Total purchase consideration	**640,967**
Fair value of net identifiable assets acquired	**(29,482)**
Goodwill (note 19)	**611,485**

37. BUSINESS COMBINATIONS (Continued)

(c) Kanson (Continued)

According to the sale and purchase agreement, another zero-coupon convertible bonds with face value of HK$400,000,000 (the "CB2") would be issued to Ms. Leung Lai Ching, Margaret on the fifth business day following the date of receipt of mining license in respect of the underlying mine. The CB2 are convertible into shares of the Company at the conversion price of HK$0.60 per share. As at 31 December 2008 and 2007, Kanson and its subsidiaries were still in the progress of obtaining the mining license. The CB2 have not been issued and have not been included in the purchase consideration above.

The fair values of the identifiable assets and liabilities arising from the acquisition as at the date of acquisition and the corresponding carrying amounts immediately prior to 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)

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

37. BUSINESS COMBINATIONS (Continued)

(c) Kanson (Continued)

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 pro forma information was for illustrative purposes only and was 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.

(d) Acquisition of additional interests in Kanson

As described in notes 19, 32 and 34(g) to the financial statements, on 8 April 2008, the Group entered into a sale and purchase agreement for the acquisition of the remaining 49% equity interests in Kanson from Ms. Leung Lai Ching Margaret.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
— Fair value of CB3 issued (note 32)	**363,506**
Total purchase consideration	**363,506**
Carrying value of net assets acquired	**(25,928)**
Goodwill (note 19)	**337,578**

According to the sale and purchase agreement, another zero-coupon convertible bonds with face value of HK$380,780,000 (the "CB4") will be issued on the fifth business day following the date of receipt of mining license in respect of the underlying mine. The CB4 are convertible into shares of the Company at the conversion price of HK$0.25 per share. As at 31 December 2008, Kanson and its subsidiaries were still in the progress of obtaining the mining license. The CB4 have not been issued and have not been included in the purchase consideration above.

38. DISPOSALS OF SUBSIDIARIES

(a) Kaicheng

As mentioned in note 5 to the financial statements, on 6 March 2008, the Group disposed of 75.5% equity interests in Kaicheng for a consideration of HK$1. Particulars of the disposal transaction are as follows:

	HK$'000
Net liabilities disposed of:	
Amount due to a minority shareholder	(774)
Deposits received, other payables and accruals	(68)
Minority interests	–
	(842)
Gain on disposal of a subsidiary (note 5)	842
Total consideration	–
Satisfied by cash	–

(b) ICC

As mentioned in note 5 to the financial statements, on 30 May 2008, the Group disposed of 51% equity interests in ICC for a consideration of HK$200,000. Particulars of the disposal transaction are as follows:

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment (note 16 (a))	30
Prepayments, deposits and other receivables	4,261
Inventories	273
Trade and bills receivables	7,663
Provision for impairment of trade receivables	(2,357)
Cash at banks and in hand	763
Amount due from a minority shareholder	1,370
Minority interests	217
Trade payables	(2,300)
Deposits received, other payables and accruals	(15,158)
	(5,238)
Gain on disposal of a subsidiary (note 5)	5,438
Total consideration	200
Satisfied by cash	200

38. DISPOSALS OF SUBSIDIARIES (Continued)

(c) South Hill

As mentioned in note 5 to the financial statements, on 30 May 2007, the Group disposed of 100% equity interests 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 (note 16(a))	**373**
Prepayments, 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 (note 5)	**281**
Total consideration	**–**
Satisfied by cash	**–**

(d) An analysis of the net outflow of cash and cash equivalents in respect of the disposals of the above subsidiaries is as follows:

	2008 HK$'000	2007 HK$'000
Total consideration	**200**	–
Cash at bank and in hand disposed of	**(763)**	(3)
Net cash outflows in respect of the disposals of subsidiaries	**(563)**	(3)

39. DEEMED DISPOSAL OF SUBSIDIARIES

As mentioned in note 20, on 10 March 2008, the Company and certain of its subsidiaries, Capital Gain, a company in which Mr. Pang has beneficial interests, and Mr. Pang entered into an agreement such that, to assume the Group's obligation to contribute approximately US$4,070,000 (HK$31,725,000 equivalent) to the registered capital of Hebei Da Sheng, 51% previously owned by the Group, the Group agreed to allot and issue 804 ordinary shares of Aurora Logistic Finance, previously a 100% subsidiary of the Company, of US$1.00 each to Capital Gain. As a result, the Company's interest in Aurora Logistic Finance and its subsidiaries (i.e. the Deemed Disposal Group) was diluted from 100% to 19.6%.

	HK$'000	HK$'000
Net assets owned by the Group prior to the deemed disposal		
Property, plant and equipment (note 16(a))		**4,057**
Prepayments, deposits and other receivables		**59,344**
Cash at banks and in hand		**9,221**
Deposits received, other payables and accruals		**(721)**
Amounts due to minority shareholders		**(40,787)**
Minority interests		**(1,148)**
		29,966
Release of exchange reserve upon the deemed disposal		**(6,848)**
		23,118
Interests owned by the Group after the deemed disposal		
Property, plant and equipment (note 16(a))	**4,057**	
Prepayments, deposits and other receivables	**59,344**	
Cash at banks and in hand	**9,221**	
Deposits received, other payables and accruals	**(721)**	
Amounts due to minority shareholders	**(40,787)**	
Minority interests	**(1,148)**	
Net assets owned by the Group prior to the deemed disposal	**29,966**	
Capital injection for the 804 ordinary shares by Capital Gain	**31,725**	
	61,691	
Equity interests held by the Group (19.6%) after the deemed disposal		**12,091**
Loss on the deemed disposal of subsidiaries (note 8)		**11,027**

39. DEEMED DISPOSAL OF SUBSIDIARIES (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the Deemed Disposal Group is as follows:

	HK$'000
Total consideration	–
Cash at bank and in hand disposed of	(9,221)
Net cash outflows in respect of the deemed disposal of subsidiaries	(9,221)

40. OPERATING LEASE COMMITMENTS

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	2008 HK$'000	2007 HK$'000
Within one year	6,278	6,199
In the second to fifth years, inclusive	4,950	5,759
	11,228	11,958

The Group leased certain leasehold land and buildings under operating leases. The leases ran 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 included contingent rentals.

The Company did not have any significant lease commitments at 31 December 2007 and 2008.

41. COMMITMENTS

As at 31 December 2008, the Group entered into agreements with various parties in relation to exploration and evaluation expenditures to be capitalised. As at 31 December 2008, the total contracted amount was HK$1,950,000 (2007: HK$5,110,000).

At 31 December 2008, the Company did not have any capital commitments (2007: Nil).

42. 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) In 2007, Orient Carpet, a wholly-owned subsidiary of the Group 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 ended 31 December 2007. The sub-letting agreement was expired in June 2007;

(b) In 2007, the Group acquired 50% equity interests in Go On from Mr. So Chi Keung, a director of the Company, for a consideration at HK$1; and

(c) Compensation of key management personnel

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

	2008 **HK$'000**	2007 HK$'000
Short term employee benefits	**9,629**	7,682
Contribution to retirement benefit scheme	**66**	55
	9,695	7,737

43. FINANCIAL RISK MANAGEMENT

The Group does not have written financial 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

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and its investing activities.

The carrying amounts of trade and other 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 a 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 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 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.

The credit policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

43. FINANCIAL RISK MANAGEMENT (Continued)

(b) Foreign currency risk

The sales and purchases of the Group are predominantly in USD, RMB and HK$. 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.

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	
	2008	2007
	HK$'000	HK$'000
Cash and cash equivalents denominated in		
— USD	**–**	13,964
— RMB	**6**	1,860
Trade and bills receivables denominated in		
— USD	**–**	11,720
— RMB	**–**	985
Trade payables denominated in		
— USD	**–**	11,521
— RMB	**–**	4,315
Other receivables denominated in RMB	**50**	11,330
Other payables denominated in RMB	**6,774**	16,828

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.

43. FINANCIAL RISK MANAGEMENT (Continued)

(c) Interest rate risk

The interest rates and terms of repayment of the Group's bank and other borrowings are disclosed in note 30. 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 consider the Group's exposures to cash flow interest rate risk on the 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 income 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.

	2008		2007	
	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%	–	1%	409
Cash at banks	(1%)	–	(1%)	(409)
Other receivables	1%	244	1%	245
Other receivables	(1%)	(244)	(1%)	(245)

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 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 2007.

43. FINANCIAL RISK MANAGEMENT (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

Liquidity risk relates to the risk that the Group will not able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financial obligations, and also in respect of its cash flow management.

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:

	2008		
Group	Within 6 months HK$'000	6 to 12 months HK$'000	1 to 5 years HK$'000
Other payables and accruals	8,755	—	—
Finance lease payables	48	49	33
Convertible bonds	—	—	192,662
	8,803	49	192,695

43. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity risk (Continued)

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

Company	**2008** **Within 6 months** **HK$'000**	**6 to 12 months** **HK$'000**	**1 to 5 years** **HK$'000**
Other payables and accruals	**2,779**	**—**	**—**
Convertible bonds	**—**	**—**	**192,662**
	2,779	**—**	**192,662**

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

43. FINANCIAL RISK MANAGEMENT (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 2008 and 2007 are categorised as follows. See notes 3(m) and 3(r) for explanations about how the categorisation of financial instruments affects their subsequent measurement.

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Current				
Available-for-sale financial assets	**12,091**	—	**—**	—
Loans and receivables				
— Cash at banks and in hand	**881**	50,725	**496**	5,688
— Trade and bills receivables	**43**	17,219	**—**	—
— Other receivables	**30,338**	89,763	**—**	280
	43,353	157,707	**496**	5,968
Financial liabilities				
Current				
Trade payables	**—**	19,704	**—**	—
Other payables and accruals	**8,755**	36,200	**2,779**	6,891
Finance lease payables	**97**	91	**—**	—
Bank and other borrowings	**—**	5,340	**—**	—
Non-current				
Finance lease payables	**33**	130	**—**	—
Amounts due to minority shareholders	**—**	37,602	**—**	—
Convertible bonds	**192,662**	139,671	**192,662**	139,671
	201,547	238,738	**195,441**	146,562

44. 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 2008 amounted to approximately HK$463,407,000 (2007: HK$477,367,000), which management considers as optimal having considered the projected capital expenditures and the forecast strategic investment opportunities.

45. COMPARATIVE FIGURES

Certain comparative figures have been reclassified as a result of the reclassification of the Discontinued Operations.