# Hua Yi Copper Holdings Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 559

Annual Report
2010

# Contents

# Corporate Information

## DIRECTORS

**Executive Directors**

WONG Hin Shek *(Chairman)*
CHI Chi Hung, Kenneth *(Chief Executive Officer)*

**Independent Non-Executive Directors**

CHIU Wai On
MAN Kwok Leung
WONG Yun Kuen

## COMPANY SECRETARY

CHI Chi Hung, Kenneth

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 904, 9th Floor, Wings Building
110–116 Queen's Road Central
Central
Hong Kong

## STOCK CODE

0559

## WEBSITE

www.huayicopper.com

## AUDITORS

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

## LEGAL ADVISER

D.S. Cheung & Co.
Room 1910–1913 Hutchison House
10 Harcourt Road
Central
Hong Kong

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKS

Standard Chartered Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited

# Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Hua Yi Copper Holdings Limited (the "Company"), together with its subsidiaries, (the "Group"), I would like to present the annual report of the Company for the year ended 30 June 2010.

## REVIEW AND PROSPECT

The key segments of the Group are copper rod business and the cable and wires business. For the Financial Year 2010, the Group recorded total revenue of approximately HK$325 million. Although the business environment continued to be competitive, both business segments strived to operate effectively and remained competitive in their respective industries.

Loss attributable to shareholders for the year ended 30 June 2010 has been narrowed down significantly to approximately HK$153 million as compared to approximately HK$323 million recorded last year. Loss per share from continuing and discontinued operations decreased to HK9.64cents as compared to HK140.96 cents in the previous year. The reduction in deficit was mainly contributed by the disposal of subsidiaries during the year. In order to streamline the operation and enhance the efficiency in the use of working capital, the Group disposed its entire interest in the wholly owned subsidiary of Fortune Point in August 2009. Also, the Group has disposed the iron-ore business in April 2010, which has been idle and significantly affected the profitability of the business as a whole last year.

The Board would continue to review its overall strategy to improve the existing operations and to explore means to improve the Group's performance so as to provide maximum investment returns to the shareholders.

## APPRECIATION

Finally, on behalf of the Board, I would like to take this opportunity to express my sincere appreciation to all staff for their dedication and commitment. I would also like to express my gratitude to our valued shareholders, customers, suppliers and other business partners for their support and encouragement to the Group in the past year.

**Wong Hin Shek**
*Chairman*

Hong Kong, 15 October 2010

# Management Discussion and Analysis

## FINANCIAL RESULTS

The Group recorded a turnover of approximately HK$325 million, representing a decrease of approximately 73% as compared to approximately HK$1,197 million last year. Loss attributable to shareholders was approximately HK$153 million (2009: HK$323 million). Basic loss per share from continuing and discontinued operations was approximately HK9.64 cents (2009: HK140.96 cents).

## BUSINESS REVIEW

During the year under review, the continuing operations of the Group are copper rod business and the cable and wires business. The Group's interest in the iron-ore mining business was disposed of and completed during the year. The copper rod business recorded a turnover of approximately HK$133 million, representing approximately 41% of the Group's turnover. The cable and wire business was acquired as a result of the asset swap transaction completed in February 2009 (the "Asset Swap") (please refer to 2009 Annual Report for details of the Asset Swap) and turnover of HK$192 million was recorded in the current year, representing approximately 59% of the Group's total turnover. The turnover of the discontinued iron-ore mining business was insignificant and represented less than 1% of the Group's total turnover.

### Copper rod business

The copper rod business covers the manufacturing and trading of copper rods and copper wires used primarily in producing power wires and cables for household electrical products and infrastructure facilities.

The copper rod business was downsized with the disposal of the copper rod business located in Dongguan City as part of the Asset Swap. As a consequence, the turnover of which was significantly drop by approximately 87% from HK$1,037 million for the year 2009 to HK$133 million for the year 2010. A segment loss of approximately HK$2 million was recorded for the current year as compared to a segment loss of HK$236 million for the year ended 30 June 2009.

### Cable and wires business

Following the completion of the Asset Swap, the Group added the cable and wires business into its continuing operations which became the largest business of the Group in terms of turnover. The electrical appliances and electronics market remains competitive, through the better cost control by management and streamline the business segment by the disposal of Fortune Point Limited and its subsidiaries (the "Fortune Point Group") (details of which stated under the section "Disposal of interest in Fortune Point Group"), the performance of cable and wire business segment business was improved. For the Financial Year 2010, the turnover has been improved to approximately HK$192 million (2009: HK$50 million) and a segment gain of approximately HK$0.3 million (2009: a segment loss of HK$11 million) was recorded.

## PROSPECTS

The business environment under which the Group operates remained competitive. The Group would continue its cost control initiatives and risk management measures in each of the business segments with the view to remain efficient and competitive in the industry. To improve the overall financial position of the Group, the Company undertook placing of shares and an open offer during the year and a total of approximately HK$371 million net proceeds were generated which significantly strengthened the Group's working capital and financial position. Details of which are stated under the sections of "Placing of New Shares" and "Open Offer" below. The Group is also committed to explore new investment and business opportunities to maximize the returns to the shareholders and enhance the efficiency and effectiveness of the Group's capital as a whole.

## FINAL DIVIDEND

The Board of the Company resolved not to pay any final dividend for the year ended 30 June 2010 (2009: HK$Nil).

# Management Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group had cash and bank balances amounting to approximately HK$455 million (2009: HK$89 million) and net current assets value was approximately HK$427 million (2009: HK$11 million). The Group's gearing ratio as at 30 June 2010 was 0.14 (2009: 0.27), being a ration of total borrowings of approximately HK$86 million (2009: HK$108 million) to shareholders' fund of approximately HK$631 million (2009: HK$397 million).

As at 30 June 2010, the Group had pledged certain property, plant and machinery with aggregate net book value of approximately HK$64 million (2009: HK$113 million) to secure general banking facilities granted to the Group.

## CONTINGENT LIABILITIES

As at 30 June 2010, the Group had no significant contingent liabilities.

## FOREIGN CURRENCY RISK

Most of the Group's assets and liabilities are denominated in Hong Kong dollars, United States dollars and Renminbi, which are the functional currencies of respective group companies. The Group does not expect any significant exposure to foreign currency risks.

## PLACING OF NEW SHARES

### Placing of 316,470,000 New Shares

On 26 May 2009, the Company and Kingston Securities Limited (the "Placing Agent") entered into a placing agreement pursuant to which the Company agreed to place, through the Placing Agent, on a best efforts basis, a maximum of 316,470,000 new Shares to independent investors at a price of HK$0.20 per Share. The net proceeds from the placing of approximately HK$61 million was intended to be used for general working capital of the Company. The specific mandate in respect of the issuance of the placing shares was approved by the shareholders of the Company at the special general meeting held on 25 June 2009 and the placing was completed on 16 July 2009. Details of the placing were set out in the announcement and the circular of the Company dated 26 May 2009 and 9 June 2009 respectively.

### Placing of 390,000,000 New Shares

On 14 January 2010, the Company and the placing agent entered into a placing agreement pursuant to which the Company agreed to place, through the placing agent, on a fully underwritten basis, 390,000,000 new Shares to independent investors at a price of HK$0.131 per Share. The net proceeds from the placing of approximately HK$50 million were intended to be used for general working capital of the Company. The Shares were allotted and issued under the general mandate and the placing was completed on 21 January 2010. Details of the placing were set out in the announcement the Company dated 14 January 2010.

### Placing of 468,300,000 New Shares

On 13 April 2010, the Company and the placing agent entered into a placing agreement pursuant to which the Company agreed to place, through the placing agent, on a best effort basis, up to 468,300,000 new Shares to independent investors at a price of HK$0.153 per Share. The net proceeds from the placing of approximately HK$70 million were intended to be used for general working capital of the Company and future business development. An aggregate of 468,300,000 placing Shares were allotted and issued under the general mandate and the placing was completed on 5 May 2010. Details of the placing were set out in the announcements the Company dated 13 April 2010 and 5 May 2010.

# Management Discussion and Analysis

## OPEN OFFER

On 19 October 2009, the Company announced an offer for subscription of 1,301,282,600 offer shares (the "Offer Shares") in the proportion of two Offer Shares for every one Share held by the qualifying shareholders on 25 November 2009 at an offer price of HK$0.15 per Offer Share (the "Open Offer"). The Open Offer was approved by the shareholders at the special general meeting on 25 November 2009. The Open Offer was completed on 16 December 2009 and net proceeds of approximately HK$190 million was raised. Details of the Open Offer were set out in the prospectus of the Company dated 26 November 2009 and the results of the Open Offer announcement dated 16 December 2009.

## DISPOSAL OF INTEREST IN FORTUNE POINT GROUP

On 20 August 2009, Hua Yi Copper (BVI) Company Limited ("HYC (BVI)"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with a purchaser pursuant to which HYC (BVI) agreed to dispose of and the purchaser agreed to purchase the entire equity interest of Fortune Point Group at a consideration of HK$4.5 million. The disposal was completed on 24 August 2009. Details of the disposal were set out in the announcements of the Company dated 20 and 24 August 2009.

## DISPOSAL OF IRON-ORE BUSINESS

Due to the continuing decline in the price of iron-ore concentrated powder, the mining operation remained idle and significantly affected the profitability of the business. On 9 April 2010, Hua Yi Enterprises Limited ("HY Enterprises"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement to dispose the business of the manufacture and sales of iron-ore concentrated powder. HY Enterprises agreed to dispose of and the purchaser agreed to purchase the Group's entire equity interest in Yeading Enterprises Limited and its subsidiaries (the "Yeading Group") at a consideration of HK$8 million. The disposal was completed on 12 April 2010. Accordingly, this business segment was classified as discontinued operations. Details of the disposal were set out in Note 33 of the consolidated financial statements.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group had approximately 700 employees in Hong Kong and the PRC. The Group's remuneration policy is reviewed periodically and determined by reference to market terms, company performance, and individual qualifications and performance. Staff benefits include medical schemes, Mandatory Provident Fund scheme for Hong Kong employees, and state-sponsored retirement plans for employees in the PRC.

# Directors' Profile

## EXECUTIVE DIRECTORS

Mr. Wong Hin Shek, aged 40, has been appointed as the Chairman and executive director of the Company since July 2009. Mr. Wong has extensive experience in finance, operation and strategic investment of listed companies in Hong Kong. He worked in a number of reputable investment banks and the Listing Division of the Stock Exchange. Mr. Wong is also a responsible officer of Veda Capital Limited, a licensed corporation which carries out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance. Mr. Wong holds a Master of Science (Financial Management) degree from University of London in United Kingdom and a Bachelor of Commerce degree from University of Toronto in Canada. Mr. Wong is currently an executive directors of Golden Resorts Group Limited (stock code: 1031) and Climax International Company Limited (stock code: 439). He was an executive director of China Public Procurement Limited (stock code: 1094) from November 2007 to September 2009.

Mr. Chi Chi Hung, Kenneth, aged 42, has been appointed as the Chief Executive Officer and the executive director of the Company since Jan 2010. Mr. Chi has over 18 years of experience in accounting and financial control area. He holds a Bachelor of Accountancy Degree from the Hong Kong Polytechnic University and is a fellow member of Association of Chartered Certified Accountants in the United Kingdom, an associate member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Chi is currently an executive director of China Grand Forestry Green Resources Group Limited (stock code: 910), M Dream Inworld Limited (stock code: 8100) and Morning Star Resources Limited (stock code: 542). He is also an independent non-executive director of ZMAY Holdings Limited (stock code: 8085) and Aurum Pacific (China) Group Limited (stock code: 8148).

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chiu Wai On, aged 40, joined the Company since June 2009. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr Chiu possesses over 10 years of professional experience in accounting and auditing services. Mr. Chiu is also an independent non-executive director of New Times Energy Corporation Limited (stock code: 166).

Mr. Man Kwok Leung, aged 64, joined the Company since May 2009. He is a solicitor of the High Court of Hong Kong and a civil celebrant of marriages. Mr. Man has extensive experience in the legal practice. He had been appointed by Xinhua News Agency as a district advisor from 1995 to 1997. He is currently appointed as a director of Apleichau Kai Fong Primary School, the deputy chairman of Apleichau Kai Fong Welfare Association, the secretary of Apleichau Promotion of Tourism Association and the honorary legal advisor of Junior Police Officers' Association. Mr. Man is currently an independent non-executive director of ZMAY Holdings Limited (stock code: 8085), Kong Sun Holdings Limited (stock code: 295) and Climax International Company Limited (stock code: 439).

Dr. Wong Yun Kuen, aged 53, joined the Company since June 2009. He received his Ph.D. degree from Harvard University, and was "Distinguished Visiting Scholar" at Wharton School of the University of Pennsylvania. Dr. Wong has worked in financial industries in the United States and Hong Kong for many years, and has considerable experience in corporate finance, investment and derivative products. He is a member of the Hong Kong Securities Institute. Dr. Wong is an executive director of UBA Investments Limited (stock code: 768), and an independent non-executive director of Harmony Asset Limited (stock code: 428), Bauhaus International (Holdings) Limited (stock code: 483), Kaisun Energy Group Limited (stock code: 8203), China Yunnan Tin Minerals Group Company Limited (stock code: 263), Kong Sun Holdings Limited (stock code: 295), Golden Resorts Group Limited (stock code: 1031), ZMAY Holdings Limited (stock code: 8085), Climax International Company Limited (stock code: 439) and China Grand Forestry Green Resources Group Limited (stock code: 910). Harmony Asset Limited is also listed on Toronto Stock Exchange. Dr. Wong was an independent non-executive director of Grand Field Group Holdings Limited (stock code: 115) from September 2004 to September 2009, Superb Summit International Timber Company Limited (stock code: 1228) from April 2007 to June 2010 and China E-Learning Group Limited (stock code: 8055) from August 2007 to June 2010, and an executive director and chairman of Green Energy Group Limited (stock code: 979) from December 2009 to May 2010.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRINCIPLES

The Group is committed to promoting good corporate governance, and has applied the principles in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 30 June 2010, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of securities on the Stock Exchange (the "Listing Rules") except for the deviation from code provisions A.4.1 of the CG Code which is explained below.

### Code provision A.4.1

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election.

The existing independent non-executive directors were not appointed for a specific term as required under code provision A.4.1 of the CG Code but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company has good corporate governance practices.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by Directors. The Company has made specific enquiries and all the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year.

## BOARD OF DIRECTORS

The Board is entrusted with the overall responsibility of managing the Company's business and affairs and the ultimate responsibility of the day-to-day management of the Company which is delegated to the Chairman/Managing Director and the management.

The Board currently comprises a total of five Directors, with two Executive Directors, Messrs Wong Hin Shek (the Chairman) and Chi Chi Hung, Kenneth (the Chief Executive Officer) and three Independent Non-executive Directors, Messrs. Chiu Wai On, Man Kwok Leung and Dr. Wong Yun Kuen.

The Board meets regularly throughout the Financial Year. All Directors are given the opportunity to put items on the agenda for regular Board meetings. All Directors have access to the Company Secretary to ensure that all Board procedures and rules and regulations are followed. Full minutes of Board meetings are kept by the Company Secretary and are available for inspection on reasonable notice. Any Director may, in furtherance of his/her duties, take independent professional advice where necessary at the expense of the Company.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

# Corporate Governance Report

## BOARD OPERATION

During the Financial Year, the Board held 18 meetings and the attendance record of each member of the Board is set out below:

| | Attendance/eligible to attend |
|---|---|
| **Executive Directors** | |
| Wong Hin Shek (appointed on 24 July 2009) | 16/16 |
| Chi Chi Hung, Kenneth (appointed on 5 January 2010) | 8/8 |
| Chau Lai Him (resigned on 23 December 2009) | 7/9 |
| Chu Yuk Kuen (resigned on 14 October 2009) | 5/5 |

| | Attendance/eligible to attend |
|---|---|
| **Independent Non-executive Directors** | |
| Chiu Wai On | 15/18 |
| Man Kwok Leung | 14/18 |
| Wong Yun Kuen | 14/18 |

## REMUNERATION OF DIRECTORS

The Remuneration Committee of the Company currently comprises three Independent Non-executive Directors, Messrs. Chiu Wai On and Man Kwok Leung and Dr. Wong Yun Kuen. The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, and the making of recommendations to the Board in connection with the remuneration of the Non-executive Directors. The Remuneration Committee should consider factors such as the salaries paid by comparable companies, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee shall meet at least once a year. One meeting was held during the Financial Year, the attendance record of each member is set out below.

| | Attendance/eligible to attend |
|---|---|
| **Committee member** | |
| Chiu Wai On | 1/1 |
| Man Kwok Leung | 1/1 |
| Wong Yun Kuen | 1/1 |

## NOMINATION OF DIRECTORS

The Company has not established a Nomination Committee. The Board is responsible for all matters relating to the appointment of Directors either to fill a casual vacancy or as an addition to the existing Board. Any director appointed to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next annual general meeting and shall be eligible for re-election at such meeting. Every director shall be subject to retirement by rotation at least once every three years and shall be eligible for re-election in accordance with the Bye-laws of the Company.

Directors are responsible for identifying suitable qualified candidates and making recommendations to the Board for consideration. The process of selecting and recommending candidates for directorship includes the consideration of referrals and the engagement of external recruitment professionals. The selection criteria is based mainly on the assessment of their professional qualifications and experience relevant to the Company's businesses.

# Corporate Governance Report

## AUDITORS' REMUNERATION

During the Financial Year, the remuneration of the auditors of the Group, BDO Limited, for the provision of the Group's audit services and non-audit related services was approximately HK$627,000.

## AUDIT COMMITTEE

The Audit Committee of the Company currently comprises three Independent Non-executive Directors, Messrs. Chiu Wai On and Man Kwok Leung and Dr. Wong Yun Kuen and the chairman of the Audit Committee is Mr. Chiu Wai On. The primary duties of the Audit Committee include the reviewing of the Group's financial reporting system, the nature and scope of audit review as well as the effectiveness of the system of internal control procedures and risk management. The Audit Committee is also responsible for making recommendations in relation to the appointment, reappointment and removal of the external auditors, and the reviewing and monitoring of the external auditors' independence and objectivity. In addition, the Audit Committee discusses matters raised by the external auditors and regulatory bodies to ensure that appropriate recommendations are implemented. The Audit Committee shall meet at least twice a year.

During the Financial Year, the Audit Committee held 2 meetings and the attendance record of each member is set out below:

| **Committee Member** | **Attendance/eligible to attend** |
|---|---|
| Chiu Wai On | 2/2 |
| Man Kwok Leung | 2/2 |
| Wong Yun Kuen | 2/2 |

During the year, the Audit Committee has reviewed the interim and annual results and system of internal control, and its other duties in accordance with the terms of reference.

## SYSTEM OF INTERNAL CONTROL

The Board ensures the maintenance of sound and effective internal controls to safeguard the shareholder's investment and the assets of the Company. It has been an important duty of the Directors to conduct a review of the effectiveness of the system of internal control of the Group annually or at anytime necessary. The review covers all material controls, including financial, operational and compliance controls, as well as risk management functions. The Board has reached the conclusion that the Group's internal control system was in place and effective.

## GENERAL

The Directors acknowledge their responsibility in preparing the Group's financial statements in accordance with the statutory requirements and applicable accounting standards.

The responsibilities of the auditors with respect to the financial reporting are set out in the Independent Auditors' Report on pages 17 and 18 of this Annual Report.

# Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereafter collectively referred to as the "Group") for the year ended 30 June 2010.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 17 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2010 are set out in the consolidated statement of comprehensive income on pages 19 to 20.

The Directors resolved not to pay any final dividend for the year ended 30 June 2010.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 84.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in Note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in Note 29 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

The Company's distributable reserves as at 30 June 2010 was HK$Nil (2009: HK$Nil).

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

**Executive Directors:**

| | |
|---|---|
| Mr. Wong Hin Shek *(Chairman)* | (appointed on 24 July 2009) |
| Mr. Chi Chi Hung, Kenneth *(Chief Executive Officer)* | (appointed on 5 January 2010) |
| Mr. Chau Lai Him | (resigned on 23 December 2009) |
| Mr. Chu Yuk Kuen | (resigned on 14 October 2009) |

**Independent non-executive Directors:**

Mr. Chiu Wai On
Mr. Man Kwok Leung
Dr. Wong Yun Kuen

In accordance with bye-law 86(2) of the Company's Bye-laws, Mr. Chi Chi Hung, Kenneth will retire as Director and, being eligible, offer himself for re-election as Director at the forthcoming annual general meeting.

In accordance with bye-law 87 of the Company's Bye-laws, Mr. Chiu Wai On will retire as Director by rotation and Mr. Chiu Wai On, being eligible, offer himself for re-election as Director at the forthcoming annual general meeting.

Independent non-executive Directors are not appointed for a specific term and are subject to retirement by rotation in accordance with the above Bye-laws.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

# Directors' Report

## DIRECTORS AND THE CHIEF EXECUTIVE'S INTERESTS IN SECURITIES OF THE COMPANY

As at 30 June 2010, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register 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 contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### Long positions in the shares of the Company

| Name of director | Capacity in which the shares are held | Number of issued ordinary shares held | Number of underlying ordinary shares held *(Note 1)* | Total | Percentage of the issued share capital of the Company |
|---|---|---|---|---|---|
| Mr. Wong Hin Shek | Corporate interest | 241,279,125 *(Note 2)* | 2,340,000 | 243,619,125 | 8.67% |
| Mr. Chi Chi Hung, Kenneth | Beneficial Owner | – | 23,000,000 | 23,000,000 | 0.82% |

*Notes:*

1. This represents interests in options held by the relevant Director as a beneficial owner to subscribe for the relevant underlying Shares in respect of the option shares granted by the Company under the share option scheme, details of which are set out in the section "Share Options" in this report.

2. These Shares are beneficially owned by Intense Rise Holdings Limited, a company incorporated in the British Virgin Islands, whose entire issued share capital is wholly and beneficially owned by Mr. Wong Hin Shek. By virtue of the SFO, Mr. Wong Hin Shek is deemed to be interested in the shares held by Intense Rise Holdings Limited.

Save as disclosed above, 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 of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

# Directors' Report

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SECURITIES OF THE COMPANY

As at 30 June 2010, the following shareholders (other than the Directors or the chief executive of the Company) had an interest or short positions in the shares or underlying shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO and were directly or indirectly interest in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group were as follows:

**Long positions in the shares of the Company**

| Name of substantial shareholder | Capacity in which the shares are held | Number of ordinary shares held | Percentage of the issued share capital |
|---|---|---|---|
| Intense Rise Holdings Limited *(Note)* | Beneficial owner | 241,279,125 | 8.59% |

*Note:* These Shares are beneficially owned by Intense Rise Holdings Limited, a company incorporated in the British Virgin Islands, whose entire issued share capital is wholly and beneficially owned by Mr. Wong Hin Shek. By virtue of the SFO, Mr. Wong Hin Shek is deemed to be interested in the shares held by Intense Rise Holdings Limited.

Save as disclosed above, no person other than the Director or the chief executive of the Company, whose interests are set out in the paragraph headed "Directors' and chief executive's interests in securities of the Company", and Shareholders, whose interests are set out in the paragraph headed "Substantial Shareholders and other persons' interests in securities of the Company" above, had registered an interest or short position in the shares or underlying shares that was required to be recorded pursuant to Section 336 of the SFO.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its ultimate holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2010, the five largest customers of the Group together accounted for approximately 46%, with the largest customer accounted for approximately 18% of the Group's total turnover. The five largest suppliers of the Group together accounted for approximately 58%, with the largest supplier accounted for approximately 18% of the Group's total purchases during the year.

To the best of the Directors' knowledge, at no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

# Directors' Report

## SHARE OPTIONS

On 4 December 2003, the Company adopted a new share option scheme (the "Share Option Scheme") which replaced its old share option scheme adopted in 1996. Particulars of these share option schemes are set out in Note 37 to the consolidated financial statements.

The following table discloses movements in the Company's Share Option Scheme during the year:

**For the year ended 30 June 2010**

| | | | | Number of share options | | |
|---|---|---|---|---|---|---|
| **Capacity** | **Date of grant** | **Exercise period** | **Exercise price** | **Outstanding at 1.7.2009** | **Granted during the year** | **Outstanding at 30.6.2010** |
| | | | *HK$* | | | |
| | | | *(Note 1)* | | | *(Note 2)* |
| Directors | | | | | | |
| – Mr. Wong Hin Shek | 23 February 2010 | 24 February 2010 to 23 February 2013 | 0.158 | – | 2,340,000 | 2,340,000 |
| – Mr. Chi Chi Hung Kenneth | 23 February 2010 | 24 February 2010 to 23 February 2013 | 0.158 | – | 23,000,000 | 23,000,000 |
| Others | 23 February 2010 | 24 February 2010 to 23 February 2013 | 0.158 | – | 169,850,000 | 169,850,000 |
| | | | | – | 195,190,000 | 195,190,000 |

*Note 1:* The closing price of the Shares on the Stock Exchange on the date of grant was HK$0.158 and the weighted average closing price of the Shares on the Stock Exchange for the five business days immediately before the date of grant was HK$0.157.

*Note 2:* None of the share options granted during the year have been exercised, cancelled and lapsed.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme as mentioned earlier, at no time during the year was the Company or its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

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

## CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "CG Code"), except that there are no fixed terms for the appointment of independent non-executive Directors as required under code provision A.4.1 of the CG Code. Details are set out in the Corporate Governance Report on pages 8 to 10.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, all the Directors confirmed they have complied with the required standards set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the year ended 30 June 2010.

# Directors' Report

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

## AUDIT COMMITTEE

The Audit Committee comprises the three independent non-executive directors of the Company. The Audit Committee has adopted terms of reference which are in line with the code provisions of the CG Code. The Audit Committee has reviewed the audited results for the year ended 30 June 2010 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Group's internal control procedure and financial reporting disclosures.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises the three independent non-executive directors of the Company. The Remuneration Committee has adopted terms of reference which are in line with the code provisions of the CG Code. The duties of the Remuneration Committee include reviewing and evaluating the remuneration packages of the executive directors and senior management and making recommendations to the Board from time to time.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 30 June 2010.

## PRE-EMPTIVE RIGHTS

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

## CONNECTED TRANSACTIONS

Related party transactions entered by the Group during the year ended 30 June 2010, which do not constitute connected transactions in accordance with the requirements of the Listing Rules, are disclosed in Note 39 to the consolidated financial statements.

## EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results and individual performance.

The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees, details of the scheme are set out in Note 37 to the consolidated financial statements.

## EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events after the reporting period.

# Directors' Report

## AUDITORS

BDO Limited shall retire and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Wong Hin Shek**
*Chairman and Executive Director*

Hong Kong, 15 October 2010

# Independent Auditors' Report

BDO

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

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

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

香港干諾道中 111 號
永安中心 25 樓

**TO THE SHAREHOLDERS OF HUA YI COPPER HOLDINGS LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements of Hua Yi Copper Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 83, which comprise the consolidated and company statements of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 the 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. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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' judgment, 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.

# Independent Auditors' Report

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2010 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**BDO Limited**
*Certified Public Accountants*

**Lam Siu Fung**
Practising Certificate number: P05308

Hong Kong, 15 October 2010

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010

| | | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|---|
| | | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | *Notes* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Turnover | *6* | **324,723** | 1,086,161 | **243** | 111,115 | **324,966** | 1,197,276 |
| Cost of sales | | **(311,459)** | (1,317,939) | **(404)** | (110,955) | **(311,863)** | (1,428,894) |
| Gross profit/(loss) | | **13,264** | (231,778) | **(161)** | 160 | **13,103** | (231,618) |
| Interest income | | **4,203** | 4,470 | **–** | 301 | **4,203** | 4,771 |
| Other income | | **1,336** | 5,327 | **69** | 847 | **1,405** | 6,174 |
| General and administrative expenses | | **(29,753)** | (32,603) | **(5,258)** | (17,105) | **(35,011)** | (49,708) |
| Selling and distribution expenses | | **(1,478)** | (2,324) | **–** | (2,621) | **(1,478)** | (4,945) |
| Finance costs | *9* | **(8,764)** | (21,320) | **–** | (4,280) | **(8,764)** | (25,600) |
| Share of results of a jointly-controlled entity | | **–** | (3,129) | **–** | – | **–** | (3,129) |
| Gain on asset swap | *31* | **–** | 53,505 | **–** | – | **–** | 53,505 |
| Gains on deemed disposal of a jointly-controlled entity and disposal of available-for-sale investment, net | *32* | **–** | 7,237 | **–** | – | **–** | 7,237 |
| Impairment loss on intangible asset | *16* | **–** | – | **(55,128)** | (102,917) | **(55,128)** | (102,917) |
| Impairment loss on loans receivable | *22* | **(35,900)** | – | **–** | – | **(35,900)** | – |
| (Loss)/gain on disposal of subsidiaries and discounting effect of amount due from disposed group, net | *33* | **(6,686)** | – | **8,235** | – | **1,549** | – |
| Impairment loss on property, plant and equipment | *14* | **–** | – | **(9,310)** | (19,621) | **(9,310)** | (19,621) |
| Change in fair value of derivative financial instruments | *23* | **(11)** | 434 | **–** | – | **(11)** | 434 |
| Change in fair value of financial assets at fair value through profit or loss | | **(3,278)** | – | **–** | – | **(3,278)** | – |
| Change in fair value of convertible note designated as at fair value through profit or loss | *18* | **(37,853)** | 31,233 | **–** | – | **(37,853)** | 31,233 |
| Loss on disposal of assets classified as held for sale and associated liabilities | *18* | **–** | – | **–** | (26,512) | **–** | (26,512) |
| Loss before taxation | *7* | **(104,920)** | (188,948) | **(61,553)** | (171,748) | **(166,473)** | (360,696) |
| Taxation | *10* | **(743)** | 9,525 | **13,782** | 25,835 | **13,039** | 35,360 |
| Loss for the year | | **(105,663)** | (179,423) | **(47,771)** | (145,913) | **(153,434)** | (325,336) |
| Other comprehensive income: | | | | | | | |
| Exchange differences arising on translation of foreign operations and share of reserve of a jointly-controlled entity | | **–** | (1,748) | **–** | (3) | **–** | (1,751) |
| Reclassification adjustments of exchange reserve upon disposal of subsidiaries | *33* | **–** | – | **(72)** | – | **(72)** | – |
| Reclassification adjustments of exchange reserve upon deemed disposal of a jointly-controlled entity | *32* | **–** | (3,044) | **–** | – | **–** | (3,044) |
| Reclassification adjustments of exchange reserve upon asset swap | *31* | **–** | (32,921) | **–** | – | **–** | (32,921) |
| Other comprehensive income for the year | | **–** | (37,713) | **(72)** | (3) | **(72)** | (37,716) |
| Total comprehensive income for the year | | **(105,663)** | (217,136) | **(47,843)** | (145,916) | **(153,506)** | (363,052) |

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010

| | | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|---|
| | | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | *Notes* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Loss for the year attributable to: | | | | | | | |
| Owners of the Company | *11* | **(105,663)** | (179,423) | **(47,147)** | (143,180) | **(152,810)** | (322,603) |
| Non-controlling interests | | **–** | – | **(624)** | (2,733) | **(624)** | (2,733) |
| | | **(105,663)** | (179,423) | **(47,771)** | (145,913) | **(153,434)** | (325,336) |
| Total comprehensive income for the year attributable to: | | | | | | | |
| Owners of the Company | | **(105,663)** | (217,136) | **(47,219)** | (143,180) | **(152,882)** | (360,316) |
| Non-controlling interests | | **–** | – | **(624)** | (2,736) | **(624)** | (2,736) |
| | | **(105,663)** | (217,136) | **(47,843)** | (145,916) | **(153,506)** | (363,052) |
| | | | | | | | (Restated) |
| Loss per share | | | | | | | |
| from continuing and discontinued operations | *13* | | | | | | |
| – Basic and diluted | | | | | | **(9.64) HK cents** | (140.96) HK cents |
| from continuing operations | *13* | | | | | | |
| – Basic and diluted | | | | | | **(6.67) HK cents** | (78.40) HK cents |

# Consolidated Statement of Financial Position

At 30 June 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **151,490** | 261,837 |
| Prepayments for acquisition of property, plant and equipment | 14 | **1,237** | 14,000 |
| Prepaid lease payments for land | 15 | **9,776** | 14,241 |
| Other receivable | 33 | **33,473** | – |
| Intangible asset | 16 | **–** | 55,128 |
| Convertible note designated as at fair value through profit or loss | 18 | **8,900** | 46,753 |
| Loans receivable, secured | 22 | **–** | 21,198 |
| Total non-current assets | | **204,876** | 413,157 |
| **Current assets** | | | |
| Inventories | 19 | **21,442** | 21,179 |
| Debtors, other receivables, deposits and prepayments | 20 | **75,805** | 38,092 |
| Bills receivable | 21 | **10,839** | 1,739 |
| Loans receivable, secured | 22 | **–** | 14,702 |
| Prepaid lease payments for land | 15 | **227** | 365 |
| Financial assets at fair value through profit or loss | 24 | **3,629** | – |
| Bank balances and cash | 25 | **454,624** | 89,000 |
| Total current assets | | **566,566** | 165,077 |
| **Current liabilities** | | | |
| Creditors, other advances and accruals | 26 | **51,374** | 54,965 |
| Borrowings | 27 | **86,238** | 96,940 |
| Taxation | | **2,415** | 2,049 |
| Derivative financial liabilities | 23 | **11** | – |
| Total current liabilities | | **140,038** | 153,954 |
| **Net current assets** | | **426,528** | 11,123 |
| **Total assets less current liabilities** | | **631,404** | 424,280 |

# Consolidated Statement of Financial Position

At 30 June 2010

| | Notes | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Borrowings | 27 | – | 11,364 |
| Deferred tax liabilities | 28 | **726** | 15,790 |
| **Total non-current liabilities** | | **726** | 27,154 |
| **Net assets** | | **630,678** | 397,126 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 29 | **140,511** | 16,709 |
| Reserves | | **490,167** | 380,417 |
| Equity attributable to owners of the Company and total equity | | **630,678** | 397,126 |

These consolidated financial statements were approved and authorised for issue by the board of directors on 15 October 2010 and are signed on its behalf by:

**Wong Hin Shek**
*Director*

**Chi Chi Hung, Kenneth**
*Director*

# Statement of Financial Position

At 30 June 2010

| | Notes | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | *17* | **139,007** | 137,731 |
| Prepayment for acquisition of property, plant and equipment | *14* | **1,237** | – |
| Total non-current assets | | **140,244** | 137,731 |
| **Current assets** | | | |
| Other receivables, deposits and prepayments | | **484** | 113 |
| Bank balances and cash | *25* | **260,858** | 21,136 |
| Total current assets | | **261,342** | 21,249 |
| **Current liabilities** | | | |
| Accrued charges | | **589** | 317 |
| Amounts due to subsidiaries | *17* | **185** | 176 |
| Total current liabilities | | **774** | 493 |
| **Net current assets** | | **260,568** | 20,756 |
| **Net assets** | | **400,812** | 158,487 |
| **Capital and reserves** | | | |
| Share capital | *29* | **140,511** | 16,709 |
| Reserves | *30* | **260,301** | 141,778 |
| **Total equity** | | **400,812** | 158,487 |

These financial statements were approved and authorised for issue by the board of directors on 15 October 2010 and are signed on its behalf by:

| | |
|---|---|
| **Wong Hin Shek** | **Chi Chi Hung, Kenneth** |
| *Director* | *Director* |

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2010

| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 (Note (a)) | Exchange reserve HK$'000 (Note (b)) | Statutory reserve fund HK$'000 (Note (c)) | Special reserve HK$'000 (Note (d)) | Share option reserve HK$'000 (Note (e)) | Retained profits/ (accumulated losses) HK$'000 | Total attributable to owners of the Company HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 July 2008 | 177,061 | 124,891 | 172,724 | 57,470 | 14,005 | (43,246) | 10,626 | 190,906 | 704,437 | 2,736 | 707,173 |
| Total comprehensive income for the year | – | – | – | (37,713) | – | – | – | (322,603) | (360,316) | (2,736) | (363,052) |
| Capital reorganisation *(Note 29)* | (168,208) | – | 168,208 | – | – | – | – | – | – | – | – |
| Issue of shares upon exercise of share options *(Note 29)* | 885 | 6,567 | – | – | – | – | – | – | 7,452 | – | 7,452 |
| Issue of new shares *(Note 29)* | 6,971 | 35,162 | – | – | – | – | – | – | 42,133 | – | 42,133 |
| Recognition of equity-settled share-based payment transactions *(Note 37)* | – | – | – | – | – | – | 3,420 | – | 3,420 | – | 3,420 |
| Transfer upon exercise of share options *(Note 29)* | – | 3,420 | – | – | – | – | (3,420) | – | – | – | – |
| Cancellation and lapse of share options | – | – | – | – | – | – | (10,626) | 10,626 | – | – | – |
| At 30 June 2009 | 16,709 | 170,040 | 340,932 | 19,757 | 14,005 | (43,246) | – | (121,071) | 397,126 | – | 397,126 |

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2010

| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 (Note (a)) | Exchange reserve HK$'000 (Note (b)) | Statutory reserve fund HK$'000 (Note (c)) | Special reserve HK$'000 (Note (d)) | Share option reserve HK$'000 (Note (e)) | Accumulated losses HK$'000 | Total attributable to owners of the Company HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 July 2009 | 16,709 | 170,040 | 340,932 | 19,757 | 14,005 | (43,246) | – | (121,071) | 397,126 | – | 397,126 |
| Total comprehensive income for the year | – | – | – | (72) | – | – | – | (152,810) | (152,882) | (624) | (153,506) |
| Issue of new shares by placements *(Note 29)* | 58,738 | 122,496 | – | – | – | – | – | – | 181,234 | – | 181,234 |
| Open offer of new shares *(Note 29)* | 65,064 | 125,031 | – | – | – | – | – | – | 190,095 | – | 190,095 |
| Disposal of subsidiaries *(Note 33)* | – | – | – | – | – | – | – | – | – | 624 | 624 |
| Recognition of equity-settled share-based payment transactions *(Note 37)* | – | – | – | – | – | – | 15,105 | – | 15,105 | – | 15,105 |
| At 30 June 2010 | 140,511 | 417,567 | 340,932 | 19,685 | 14,005 | (43,246) | 15,105 | (273,881) | 630,678 | – | 630,678 |

*Notes:*

(a) In prior years, the Group undertook a capital reorganisation resulting in the elimination of the share premium account of the Company with a balance of HK$260,881,000 as at 30 September 2005 against accumulated losses of HK$88,157,000 as at that date. The remaining balance of HK$172,724,000 was credited to contributed surplus of the Company.

During the year ended 30 June 2009, the Group undertook a capital reorganisation resulting in the elimination of the share capital of the Company of HK$168,208,000 which was credited to the contributed surplus of the Company.

(b) Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(c) According to articles of association of the Group's subsidiary operating in the People's Republic of China (the "PRC"), the subsidiary is required to transfer 10% of its net profit as determined in accordance with the PRC Accounting Rules and Regulations to its statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividend to equity holders of the PRC subsidiary.

(d) The special reserve arose from the business combination carried out by the Company in 2004, which was accounted for as a reverse acquisition. Details of the transaction were set out in the circular of the Company dated 14 June 2004.

(e) Share option reserve represents the fair value of the actual or estimated number of unexercised outstanding share options granted to the eligible parties.

# Consolidated Statement of Cash Flows

For the year ended 30 June 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Operating activities** | | |
| Loss before taxation (continuing and discontinued operations) | **(166,473)** | (360,696) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **19,625** | 22,819 |
| Amortisation of intangible asset | **–** | 422 |
| Charge of prepaid lease payments for land | **261** | 1,125 |
| Impairment loss on loans receivable | **35,900** | – |
| Impairment loss on prepaid lease payments for land | **213** | 488 |
| Impairment loss on property, plant and equipment | **9,310** | 19,621 |
| Impairment loss on intangible asset | **55,128** | 102,917 |
| Equity-settled share-based payments | **15,105** | 3,420 |
| Change in fair value of derivative financial instruments | **11** | (434) |
| Change in fair value of financial assets at fair value through profit or loss | **3,278** | – |
| Change in fair value of convertible notes designated as at fair value through profit or loss | **37,853** | (31,233) |
| Impairment for trade debtors | **324** | 364 |
| Bad debts written off | **–** | 3,452 |
| Loss/(gain) on disposal of property, plant and equipment, net | **4,493** | (4) |
| Gain on disposal of subsidiaries and discounted effect of amount due from disposed group, net | **(1,549)** | – |
| Gain on asset swap | **–** | (53,505) |
| Gains on deemed disposal of a jointly-controlled entity and disposal of available-for-sale investment, net | **–** | (7,237) |
| Loss on disposal of assets held for sale and associated liabilities | **–** | 26,512 |
| Interest income | **(4,203)** | (4,485) |
| Finance costs | **8,764** | 21,320 |
| Share of results of a jointly-controlled entity | **–** | 3,129 |
| Operating cash flows before movements in working capital | **18,040** | (252,005) |
| (Increase)/decrease in inventories | **(12,886)** | 300,418 |
| (Increase)/decrease in debtors, other receivables, deposits and prepayments | **(44,741)** | 178,445 |
| Decrease in other receivables | **3,076** | – |
| (Increase)/decrease in bills receivable | **(9,339)** | 9,471 |
| Increase/(decrease) in creditors, other advances and accruals | **37,549** | (8,220) |
| Decrease in bills payable | **–** | (1,963) |
| Decrease in derivative financial instruments | **–** | 687 |
| Net cash generated from operating activities of assets and liabilities held for sale | **–** | 7,776 |
| **Cash (used in)/generated from operations** | **(8,301)** | 234,609 |
| Hong Kong profits tax refunded | **–** | 6,024 |
| Taxation in Mainland China | **(403)** | (562) |
| **Net cash (used in)/generated from operating activities** | **(8,704)** | 240,071 |

# Consolidated Statement of Cash Flows

For the year ended 30 June 2010

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **Investing activities** | | |
| Interest received | **2,190** | 1,439 |
| Loans repaid by third parties | **–** | 23,166 |
| Net proceeds on disposal of a jointly-controlled entity | **–** | 19,121 |
| Acquisition of financial assets at fair value through profit or loss | **(6,907)** | – |
| Purchases of property, plant and equipment | **(8,316)** | (11,305) |
| Proceeds on disposal of property, plant and equipment | **–** | 2,479 |
| Prepayments made for acquisition of property, plant and equipment | **(1,237)** | – |
| Direct costs incurred for disposal of subsidiaries | **(40)** | (1,497) |
| Settlement of promissory note receivable | **–** | 13,445 |
| Net cash outflow arising from the asset swap | **–** | (62,682) |
| Net cash inflow arising from the disposal of subsidiaries | **10,639** | – |
| Net cash outflow arising from the disposal of assets and liabilities held for sale | **–** | (7,187) |
| **Net cash used in investing activities** | **(3,671)** | (23,021) |
| **Financing activities** | | |
| Interest paid on borrowings | **(8,764)** | (18,625) |
| Net proceeds from issue of shares | **371,329** | 49,585 |
| New borrowings raised | **58,617** | 677,672 |
| Repayment of borrowings | **(43,183)** | (978,987) |
| Increase in pledged deposits | **–** | (1,283) |
| Net cash generated from financing activities of assets and liabilities held for sale | **–** | 750 |
| **Net cash generated from/(used in) financing activities** | **377,999** | (270,888) |
| **Net increase/(decrease) in cash and cash equivalents** | **365,624** | (53,838) |
| **Effect of foreign exchange rate changes** | **–** | (6,391) |
| **Cash and cash equivalents at beginning of the year** | **89,000** | 149,229 |
| **Cash and cash equivalents at end of the year** | **454,624** | 89,000 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Bank balances and cash | **454,624** | 89,000 |

# Notes to the Financial Statements

For the year ended 30 June 2010

## 1. ORGANISATION AND OPERATIONS

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in Corporate Information in the annual report.

The Company is an investment holding company. The activities of the Company's subsidiaries are set out in Note 17. During the year, the Group's interest in iron-ore concentrated powder operation was disposed of, details of which are set out in Notes 6 and 33.

The functional currency of the Company is Renminbi ("RMB"), while the financial statements are presented in Hong Kong dollars. As the Company is listed on the Main Board of the Stock Exchange, the directors consider that it will be more appropriate to adopt Hong Kong dollars as the Group's and the Company's presentation currency.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

**(a)** The Group has adopted the following new/revised Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for the current accounting period.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 |
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 23 (Revised) | Borrowing Costs |
| HKFRS 1 and HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 3 (Revised) | Business Combination |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) – Interpretation 9 and HKAS 39 (Amendments) | Embedded Derivatives |

The adoption of the above new/revised HKFRSs had no material effect on the financial statements of the Group for both the current and prior reporting periods, except for certain presentational change as a result of adopting HKAS 1 (Revised) and other changes as set out below. All relevant changes in accounting policies and disclosures where applicable have been made in accordance with the provisions of the respective standards. The statements of financial position, previously known as balance sheets, at the beginning of the year ended 30 June 2009 have not been presented as there were no changes to the originally published statements.

HKFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after 1 July 2009. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### (a) (continued)

HKAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions are recognised within equity and no longer give rise to goodwill, nor gain from bargain purchase. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes by HKFRS 3 (Revised) and HKAS 27 (Amended) affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The change in accounting policy was applied prospectively and had no material impact on the current year's results and financial position.

HKFRS 8 supersedes HKAS 14 "Segment Reporting", and requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-makers in order to allocate resources to the segment and to assess its performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to chief operating decision-makers as required by HKFRS 8, there are no changes to the operating segments and the results of operating segments on the adoption of HKFRS 8.

The amendments to HKFRS 7 expand the disclosures relating to fair value measurements for financial instruments that are measured at fair value and liquidity risk of financial liabilities. A three-level fair value hierarchy has been introduced to categorise the fair value measurements according to the degree they are based on observable market data. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision.

### (b) Potential impact arising on HKFRSs not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Group:

| | | **Effective date** |
|---|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 | (i) |
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 | (ii) |
| Amendments to HKFRS 2 | Share-based Payment – Group Cash-settled Share-based Payment Transactions | (i) |
| HK(IFRIC) – Interpretation 19 | Extinguishing Financial Liabilities with Equity Instruments | (iii) |
| HKAS 24 (Revised) | Related Party Disclosures | (iv) |
| HKFRS 9 | Financial Instruments | (v) |

*Effective date:*

*(i) Annual periods beginning on or after 1 January 2010*
*(ii) Annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate*
*(iii) Annual periods beginning on or after 1 July 2010*
*(iv) Annual periods beginning on or after 1 January 2011*
*(v) Annual periods beginning on or after 1 January 2013*

# Notes to the Financial Statements

For the year ended 30 June 2010

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### (b) Potential impact arising on HKFRSs not yet effective (continued)

The amendment to HKAS 17 made under the "Improvements to HKFRSs 2009", mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group will reassess the classification of land elements of unexpired leases at the date it adopts the amendment on the basis of information existing at the inception of the lease and recognise a lease newly classified as a finance lease retrospectively if the criteria of a finance lease is met.

The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### Basis of preparation of financial statements

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

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions, balances, income, expenses and unrealised gains on transactions between group enterprises are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of consolidation (continued)**

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly-controlled entity.

**Business combinations**

Acquisition of subsidiaries and business is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets, except for non-current assets (or disposed groups) that are classified as held for sale, which are recognised and measured at fair value less costs to sell. Acquisition costs incurred are expensed.

Goodwill arising on acquisition is recognised in accordance with the accounting policy for goodwill below.

**Subsidiaries**

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Interests in subsidiaries are included in the Company's statement of financial position at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold and services provided in the normal course of business, net of returns, discounts and other similar allowances and excludes value-added tax or other sales related taxes.

i) Sales of goods are recognised when goods are delivered and title has passed.

ii) Interest income from a financial asset is accrued on a time-apportioned basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

iii) Rental income from operating leases is recognised in equal instalments over the accounting periods covered by the lease term.

iv) Revenue for providing services is recognised when the services have been rendered.

### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

Buildings are depreciated over the shorter of the term of the lease or fifty years using the straight-line method.

Leasehold improvements are depreciated over the shorter of the remaining term of the lease or at 5% per annum using the straight-line method.

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress, over their estimated useful lives, using the reducing balance method, at the following rates per annum:

| | |
|---|---|
| Equipment, furniture and fixtures | 6.67%–30% |
| Plant and machinery (including mining-related machinery and equipment) | 6.67%–20% |
| Motor vehicles | 12.5%–30% |

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment losses. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year in which the item is derecognised.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Prepaid lease payments for land

Prepaid lease payments for land are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments for land are amortised on a straight-line basis over the respective terms of the land use rights.

### Deferred overburden removal costs

Stripping ratios are determined by comparing the quantity of iron-ore concentrated powder mined to the quantity of overburden, or waste removed to access the iron-ore concentrated powder. Costs are deferred to the consolidated statement of financial position, where appropriate, when the actual stripping ratios vary from the planned mine average stripping ratios. Deferral of costs to the statement of financial position is not made where the actual stripping ratio is expected to be evenly distributed. Costs, which have previously been deferred to the statement of financial position (deferred overburden removal costs), are included in the profit or loss on the units of production basis utilising average stripping ratios. Changes in estimates of average stripping ratios are accounted for prospectively from the date of the change.

### Intangible assets

***Mining right***

Mining right is stated at cost less accumulated amortisation and any impairment losses and is amortised on the units of production method utilising only proven and probable iron-ore reserves in the depletion base.

***Exploration and evaluation assets***

Exploration and evaluation assets comprise costs which are directly attributable to: researching and analysing existing exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling pre-feasibility and feasibility studies. Exploration and evaluation assets also include the costs incurred in acquiring mining rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

During the initial stage of a project, exploration and evaluation costs are expensed as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised as exploration and evaluation assets and not amortised, and transferred to mining rights if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are expensed in the profit or loss. Exploration and evaluation assets are stated at cost less impairment losses, if any.

# Notes to the Financial Statements
For the year ended 30 June 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Intangible assets (continued)**

***Impairment of exploration and evaluation assets***

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment in accordance with HKAS 36 "Impairment of Assets" whenever one of the following events or changes in circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in the profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

**Impairment of assets**

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have reduced. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss in profit or loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, including an appropriate portion of fixed and variable overhead expenses, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

### Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

***(i) Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

***(ii) Deferred tax***

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all taxable temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

#### *(ii) Deferred tax (continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Leases

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

Assets held under finance leases are capitalised at their fair values at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor, net of interest charges, is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in profit or loss over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised as profit or loss in the period in which they arise. Non-monetary items carried at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined and included as profit or loss or other comprehensive income as appropriate.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies (continued)**

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity (the exchange reserve). Such exchange differences are recognised as profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

**Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets and financial liabilities as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised in profit or loss.

***Financial assets***

*Financial assets at fair value through profit or loss*

Convertible note designated as at fair value through profit or loss is classified as at fair value through profit or loss upon initial recognition as at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. These net fair value changes do not include any interest earned on these financial assets, which are recognised in accordance with the policy set out for revenue recognition.

*Loans and receivables*

The Group's non-derivative financial assets mainly include loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including debtors, other receivables, loans receivable, bills receivable and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. Subsequent to initial recognition, loans and receivables (including debtors, other receivables, loans receivable, bills receivable and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

*Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

# Notes to the Financial Statements
For the year ended 30 June 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial assets (continued)***

*Impairment of financial assets (continued)*

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

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

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other 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 profit or loss.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by an entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

*Borrowings*

Bank borrowings are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the terms of the borrowings.

*Other financial liabilities*

Other financial liabilities including creditors and other advances are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Derivatives not qualified for hedging*

Derivatives that do not qualify for hedge accounting are deemed as financial assets/financial liabilities held for trading and are measured at fair value with fair value changes recognised in profit or loss except for derivative instruments which are linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured and such derivative instruments are stated at cost less any impairment losses, if applicable.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been previously recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Provisions (continued)**

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

***Provision for close down, restoration and environmental costs***

One consequence of iron-ore mining is land subsidence caused by the resettlement of the land at the mining sites. Depending on the circumstances, the Group may relocate inhabitants from the mining sites prior to conducting mining activities or the Group may compensate the inhabitants for losses or damage from close down and land subsidence after the sites have been mined. The Group may also be required to make payments for restoration, rehabilitation or environmental protection of the land after the sites have been mined.

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during mine development or during the production phase, based on the net present value of estimated future costs. The cost is capitalised where it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of close down. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision is included in borrowing costs. Where there is a change in the expected decommissioning and restoration costs, an adjustment is recorded against the carrying amount of the provision and related assets, and the effect is then recognised in the profit or loss on a prospective basis over the remaining life of the operation. Provision for close down and restoration costs does not include any additional obligations which are expected to arise from future disturbance. The cost estimates are reviewed and revised at each end of the reporting period to reflect changes in conditions.

**Share-based payment transactions**

***Equity-settled share-based payment transactions***

*Share options granted to employees of the Company and others providing similar services*

The fair value of share options has been recognised in the profit or loss as share-based payments.

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in share option reserve.

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

*Share options granted to others*

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received unless that fair value cannot be estimated reliably, in which case, the fair value is estimated by reference to the fair value of the share options. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to share option reserve.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Employees' benefits**

***Short term benefits***

Salaries, annual bonuses, paid annual leaves and other allowances are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

***Defined contribution pension obligations***

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees. The Group has no further payment obligations once the contributions have been made.

**Related parties**

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not equal to the actual results. The key estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as below.

**Net realisable value of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassess the estimations at the end of each reporting period.

**Depreciation of property, plant and equipment**

Property, plant and equipment is depreciated on a straight-line basis and reducing balance method over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives, depreciation method and the estimated residual values, if any, of the assets at least at the end of each reporting period in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation method, useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Income taxes

The Group is subject to income taxes in Hong Kong and PRC jurisdictions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgment is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### Reserve estimates and impairment of mining right

Reserves were estimates of the amount of products that could be economically and legally extracted from the Group's properties. In order to calculate reserves, estimates and assumptions were required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices.

Estimating the quantity and/or grade of reserves required the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process might require complex and difficult geological judgments and calculations to interpret the data.

Because the economic assumptions used to estimate reserves changed from period to period, and because additional geological data was generated during the course of operations, estimates of reserves might change from period to period. Changes in reported reserves might affect the Group's financial results and financial position in a number of ways, including the following:

(i) Asset carrying values might be affected due to changes in estimated future cash flows.

(ii) Depreciation, depletion and amortisation charged in the profit or loss might change where such charges were determined by the units of production basis, or where the useful economic lives of assets changed.

(iii) Decommissioning, site restoration and environmental provisions might change where changes in estimated reserves affected expectations about the timing or cost of these activities.

(iv) The carrying value of deferred tax might change as a result of changes in the asset carrying values as discussed above.

The provision for close down, restoration and environmental costs was determined by management based on their past experience and best estimation of future expenditures, after taking into account relevant existing PRC regulations. However, in so far as the effect on the land and the environment from current mining activities became apparent in future years, the estimate of the associated costs might be subject to revision from time to time.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 5. FINANCIAL RISK MANAGEMENT

### a. Financial risk management objectives and policies

The Group's major financial instruments include debtors, other receivables, bills receivable, loans receivable, derivative financial assets and liabilities, convertible note designated as at fair value through profit or loss, financial assets at fair value through profit or loss, bank balances, creditors and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Foreign currency risk***

Most of the Group's assets and liabilities are denominated in Hong Kong dollars, United States dollars and Renminbi, which are the functional currencies of respective group companies. The Group does not expect any significant exposure to foreign currency risks.

***Credit risk***

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk is significantly reduced.

Except for loans receivable from third parties, the Group has no significant concentration of credit risk with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparts are banks with high credit-ratings assigned by international credit-rating agencies.

The credit risk of the Group's convertible note designated as at fair value through profit or loss significantly depends on the performance and quoted market price of the issuer. In this regard, the directors consider that it would be more efficient to manage and monitor the credit risk of the convertible note by measuring it at its fair value.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade debtors are set out in Note 20.

***Interest rate risk***

Cash flow interest rate risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of the financial instruments will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk which relates primarily to the Group's floating-rate bank borrowings and the details of borrowings are disclosed in Note 27. Management closely monitors cash flow interest rate risk and will consider hedging significant interest rate exposure should the need arise.

The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 27.

At 30 June 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss after taxation and accumulated losses by HK$312,000 (2009: increase/decrease the loss after taxation and accumulated losses by HK$5,294,000).

# Notes to the Financial Statements
For the year ended 30 June 2010

## 5. FINANCIAL RISK MANAGEMENT (continued)

### a. Financial risk management objectives and policies (continued)

***Interest rate risk (continued)***

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2009.

***Liquidity risk***

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting period) and the earliest date the Group can be required to pay.

| | **Carrying amount** *HK$'000* | **Total contractual undiscounted cash flow** *HK$'000* | **Within 1 year or on demand** *HK$'000* | **More than 1 year but less than 2 years** *HK$'000* | **More than 2 years but less than 5 years** *HK$'000* | **More than 5 years** *HK$'000* |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Borrowings | **86,238** | **87,533** | **87,533** | **–** | **–** | **–** |
| Creditors, other advances and accruals | **51,374** | **51,374** | **51,374** | **–** | **–** | **–** |
| | **137,612** | **138,907** | **138,907** | **–** | **–** | **–** |
| Derivative financial liabilities | **11** | **261** | **261** | **–** | **–** | **–** |

| | Carrying amount *HK$'000* | Total contractual undiscounted cash flow *HK$'000* | Within 1 year or on demand *HK$'000* | More than 1 year but less than 2 years *HK$'000* | More than 2 years but less than 5 years *HK$'000* | More than 5 years *HK$'000* |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| Borrowings | 108,304 | 112,910 | 99,219 | 683 | 13,008 | – |
| Creditors, other advances and accruals | 54,965 | 54,965 | 54,965 | – | – | – |
| | 163,269 | 167,875 | 154,184 | 683 | 13,008 | – |
| Derivative financial liabilities | – | – | – | – | – | – |

# Notes to the Financial Statements

For the year ended 30 June 2010

## 5. FINANCIAL RISK MANAGEMENT (continued)

### a. Financial risk management objectives and policies (continued)

***Copper price risk***

The Group is exposed to price risk of copper rods, which are the major raw materials for the production process. To mitigate the copper price risk, the Group has entered into copper futures contracts to hedge against the fluctuations of copper price. Details of the copper futures contracts outstanding at the end of reporting period are set out in Note 23.

At 30 June 2010, it was estimated that a general increase/decrease of 10% in copper futures contract price, with all other variables held constant, would increase/decrease the Group's loss after taxation and accumulated losses by HK$293,000 in respect of the instruments outstanding throughout the year. At 30 June 2009, the Group has no outstanding copper futures contract as detailed in Note 23.

The sensitivity analysis above has been determined assuming that the change in copper futures contract price had occurred at the end of reporting period and had been applied to the exposure to copper futures contract price risk for both derivative and non-derivative financial instruments in existence at that date. The 10% increase or decrease represents management's assessment of a reasonably possible change in copper futures contract price over the period until the end of next reporting period.

### b. Fair value

The fair values of financial assets and financial liabilities are determined as follows:

– the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

– the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their corresponding fair values.

HKFRS 7 requires disclosure for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1 – Quoted price (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted price included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
Level 3 – Inputs for the asset or liability that are not based on observable market data.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 5. FINANCIAL RISK MANAGEMENT (continued)

### b. Fair value (continued)

At 30 June 2010, the Group's derivatives and investments in listed securities are measured at fair value. During the year, there are no significant transfers between Level 1 and Level 2.

| | Level 1<br>*HK$'000* | Level 2<br>*HK$'000* | Level 3<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| Assets | | | | |
| Financial assets at fair value through profit or loss | 3,629 | – | – | 3,629 |
| Convertible note designated as at fair value through profit or loss | – | 8,900 | – | 8,900 |
| | 3,629 | 8,900 | – | 12,529 |
| Liabilities | | | | |
| Derivative financial liabilities | 11 | – | – | 11 |

## 6. TURNOVER AND SEGMENTAL INFORMATION

Turnover, which is also revenue, represents the amounts received and receivable for goods sold to outside customers, net of returns and discounts and sales related taxes during the year.

### (a) Reportable segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has four reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The Group's reportable segments under HKFRS 8 do not differ materially from those previously under HKAS 14 and are therefore as follows:

(i) manufacture and trading of copper rods;

(ii) manufacture and sale of cable and wires;

(iii) iron-ore mining, manufacture and sale of iron-ore concentrated powder; and

(iv) manufacturing and trading of life-like plants.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' results that is used by the chief operating decision-makers for assessment of segment performance.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 6. TURNOVER AND SEGMENTAL INFORMATION (continued)

### (a) Reportable segments (continued)

As detailed in Note 33, on 9 April 2010, the Group entered into a sale and purchase agreement to dispose of its business in relation to iron-ore concentrated powder and it was completed on 12 April 2010. Accordingly, the business segment of iron-ore concentrated powder was classified as discontinued operations. The comparative consolidated statement of comprehensive income and the related notes have been re-presented as if the operations discontinued during the year had been discontinued at the beginning of the comparative period.

On 21 May 2007, the Company announced a plan to dispose of its business of manufacture and trading of life-like plants based on a conditional sale and purchase agreement dated 19 May 2007. Accordingly, the business segment of manufacture and trading of life-like plants (the "Life-like Plants Operation") was classified as discontinued operation in the prior years. According to the supplemental agreements dated 19 September 2007, 17 December 2007, 28 February 2008, 20 May 2008 and 30 September 2008, entered into among the Group, the purchaser and Kong Sun Holdings Limited (the holding company of the purchaser), the long stop date and the disposal of the Life-like Plants Operation was extended to 31 December 2008. Kong Sun Holdings Limited and its subsidiaries are collectively referred to as the Kong Sun Group. The disposal of Life-like Plants Operation was completed on 16 December 2008, details of which are disclosed in the Company's announcement dated 16 December 2008.

***For the year ended 30 June 2010***

| | Continuing operations | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|
| | Copper rods | Cable and wires | Total | Iron-ore concentrated powder | Life-like plants | Total | Consolidated |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **TURNOVER** | | | | | | | |
| Sales to external customers | 132,877 | 191,846 | 324,723 | 243 | – | 243 | 324,966 |
| **RESULTS** | | | | | | | |
| Segment results | (2,142) | 345 | (1,797) | (61,553) | – | (61,553) | (63,350) |
| Depreciation | (5,755) | (9,618) | (15,373) | (4,252) | – | (4,252) | (19,625) |
| (Loss)/gain on disposal of subsidiaries and discounting effect of amount due from disposal group, net | – | (6,686) | (6,686) | 8,235 | – | 8,235 | 1,549 |
| Impairment loss on intangible assets | – | – | – | (55,128) | – | (55,128) | (55,128) |
| Impairment loss on prepaid lease payments for land | – | – | – | (213) | – | (213) | (213) |
| Impairment loss on property, plant and equipment | – | – | – | (9,310) | – | (9,310) | (9,310) |
| Impairment loss on trade debtors | – | (324) | (324) | – | – | – | (324) |
| Taxation | (240) | (503) | (743) | 13,782 | – | 13,782 | 13,039 |

# Notes to the Financial Statements
For the year ended 30 June 2010

## 6. TURNOVER AND SEGMENTAL INFORMATION (continued)

### (a) Reportable segments (continued)

***For the year ended 30 June 2009***

| | Continuing operations | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|
| | Copper rods *HK$'000* | Cable and wires *HK$'000* | Total *HK$'000* | Iron-ore concentrated powder *HK$'000* | Life-like plants *HK$'000* | Total *HK$'000* | Consolidated *HK$'000* |
| **TURNOVER** | | | | | | | |
| Sales to external customers | 1,036,628 | 49,533 | 1,086,161 | 3,157 | 107,958 | 111,115 | 1,197,276 |
| **RESULTS** | | | | | | | |
| Segment results | (236,251) | (10,616) | (246,867) | (136,387) | (35,599) | (171,986) | (418,853) |
| Depreciation | (9,114) | (7,290) | (16,404) | (6,411) | (4) | (6,415) | (22,819) |
| Gains on deemed disposal of a jointly-controlled entity and disposal of available-for-sale investment, net | 7,237 | – | 7,237 | – | – | – | 7,237 |
| Loss on disposal of assets classified as held for sale and associated liabilities | – | – | – | – | (26,512) | (26,512) | (26,512) |
| Impairment loss on intangible asset | – | – | – | (102,917) | – | (102,917) | (102,917) |
| Impairment loss on property, plant and equipment | – | – | – | (19,621) | – | (19,621) | (19,621) |
| Impairment loss on prepaid lease payments for land | – | – | – | (488) | – | (488) | (488) |
| Share of results of a jointly-controlled entity | (3,129) | – | (3,129) | – | – | – | (3,129) |
| Taxation | 9,375 | 150 | 9,525 | 25,835 | – | 25,835 | 35,360 |

# Notes to the Financial Statements
For the year ended 30 June 2010

## 6. TURNOVER AND SEGMENTAL INFORMATION (continued)

### (a) Reportable segments (continued)

***At 30 June 2010***

| | Continuing operations | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|
| | Copper rods HK$'000 | Cable and wires HK$'000 | Total HK$'000 | Iron-ore concentrated powder HK$'000 | Life-like plants HK$'000 | Total HK$'000 | Consolidated HK$'000 |
| Reportable segment assets | **96,411** | **169,320** | **265,731** | **–** | **–** | **–** | **265,731** |
| Additions to non-current assets | **5,119** | **3,197** | **8,316** | **–** | **–** | **–** | **8,316** |
| Reportable segment liabilities | **(28,207)** | **(70,143)** | **(98,350)** | **–** | **–** | **–** | **(98,350)** |

***At 30 June 2009***

| | Continuing operations | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|
| | Copper rods HK$'000 | Cable and wires HK$'000 | Total HK$'000 | Iron-ore concentrated powder HK$'000 | Life-like plants HK$'000 | Total HK$'000 | Consolidated HK$'000 |
| Reportable segment assets | 80,454 | 254,946 | 335,400 | 77,842 | – | 77,842 | 413,242 |
| Additions to non-current assets | 120 | 9,355 | 9,475 | 1,830 | 169 | 1,999 | 11,474 |
| Reportable segment liabilities | (26,142) | (85,159) | (111,301) | (22,244) | – | (22,244) | (133,545) |

# Notes to the Financial Statements

For the year ended 30 June 2010

## 6. TURNOVER AND SEGMENTAL INFORMATION (continued)

### (b) Reconciliation of reportable segment profit or loss, assets and liabilities

| | For the year end 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| **Loss before taxation and discontinued operations** | | |
| Reportable segment profit or loss | **(63,350)** | (418,853) |
| Segment loss from discontinued operations | **61,553** | 171,748 |
| Unallocated corporate income | **2,234** | 2,647 |
| Unallocated corporate expenses | **(28,326)** | (29,228) |
| Gain on asset swap | **–** | 53,505 |
| Change in fair value of convertible note designated as at fair value through profit or loss | **(37,853)** | 31,233 |
| Impairment loss on loans receivable | **(35,900)** | – |
| Change in fair value of financial assets at fair value through profit or loss | **(3,278)** | – |
| Consolidated loss before taxation from continuing operations | **(104,920)** | (188,948) |

| | **30 June 2010** | 30 June 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Assets** | | |
| Reportable segment assets | **265,731** | 413,242 |
| Unallocated bank balances and cash | **448,623** | 21,136 |
| Unallocated corporate assets | **57,088** | 143,856 |
| Consolidated total assets | **771,442** | 578,234 |

| | **30 June 2010** | 30 June 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Liabilities** | | |
| Reportable segment liabilities | **98,350** | 133,545 |
| Current tax liabilities | **2,415** | 2,049 |
| Deferred tax liabilities | **726** | 15,790 |
| Unallocated corporate liabilities | **39,273** | 29,724 |
| Consolidated total liabilities | **140,764** | 181,108 |

# Notes to the Financial Statements
For the year ended 30 June 2010

## 6. TURNOVER AND SEGMENTAL INFORMATION (continued)

### (c) Geographical segments

The Group's operations and non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets (the "Specified non-current assets") are located in Hong Kong, the PRC, Americas, Europe and other Asian regions.

The following table provides an analysis of the Group's sales and the Specified non-current assets by geographical markets from continuing operations, irrespective of the origin of the goods:

| | Revenue from external customers | | Specified non-current assets | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| PRC | **324,966** | 1,089,318 | **161,266** | 345,206 |
| Americas | **–** | 104,448 | **–** | – |
| Europe | **–** | 1,857 | **–** | – |
| Hong Kong | **–** | 1,202 | **1,237** | – |
| Other Asian regions | **–** | 451 | **–** | – |
| | **324,966** | 1,197,276 | **162,503** | 345,206 |

### (d) Information about major customer

During the year, a customer (2009: Nil) contributed revenues of HK$1,943,000 (2009: HK$Nil) and HK$56,826,000 (2009: HK$Nil) to the Group's copper rods segment and cable and wires segment, respectively.

# Notes to the Financial Statements
For the year ended 30 June 2010

## 7. LOSS BEFORE TAXATION

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Loss before taxation has been arrived at after charging/(crediting): | | | | | | |
| Auditors' remuneration | **627** | 657 | **–** | 95 | **627** | 752 |
| Depreciation of property, plant and equipment *(Note 14)* | **15,373** | 16,404 | **4,252** | 6,415 | **19,625** | 22,819 |
| Amortisation of intangible asset *(Note 16)* | **–** | – | **–** | 422 | **–** | 422 |
| Cost of inventories | **311,459** | 1,317,939 | **404** | 110,955 | **311,863** | 1,428,894 |
| Charge of prepaid lease payments for land *(Note 15)* | **212** | 1,027 | **49** | 98 | **261** | 1,125 |
| Operating lease rentals in respect of rented premises | **–** | 453 | **–** | 223 | **–** | 676 |
| Impairment loss on prepaid lease payments for land *(Note 15)* | **–** | – | **213** | 488 | **213** | 488 |
| Impairment loss on trade debtors *(Note 20)* | **324** | – | **–** | 364 | **324** | 364 |
| Bad debts written off | **–** | 3,452 | **–** | 936 | **–** | 4,388 |
| | **324** | 3,452 | **–** | 1,300 | **324** | 4,752 |
| Wages, salaries and pension contributions including directors' remuneration *(Note 8)* | **15,854** | 7,369 | **364** | 5,667 | **16,218** | 13,036 |
| Share-based payments expense | **15,105** | 3,420 | **–** | – | **15,105** | 3,420 |
| Exchange losses/(gains), net | **14** | (1,079) | **1** | 566 | **15** | (513) |
| Net rental income after deducting outgoings | **–** | (537) | **–** | – | **–** | (537) |
| Interest income on promissory note receivable | **–** | (237) | **–** | – | **–** | (237) |
| Interest income on convertible note designated as at fair value through profit or loss *(Note 18)* | **(1,689)** | – | **–** | – | **(1,689)** | – |
| Interest income on loans receivable | **–** | (3,046) | **–** | – | **–** | (3,046) |
| Notional interest income of discounted other receivable *(Note 33)* | **(2,013)** | – | **–** | – | **(2,013)** | – |
| Management fee income | **–** | (646) | **–** | – | **–** | (646) |
| Subcontracting fee income | **–** | (3,304) | **–** | – | **–** | (3,304) |
| Loss/(gain) on disposal of property, plant and equipment, net | **4,493** | (7) | **–** | 3 | **4,493** | (4) |

*Note:* Cost of inventories includes HK$26,374,000 (2009: HK$23,299,000) relating to staff costs, depreciation of property, plant and equipment and charge of prepaid lease payments for land, for which the amounts are also included in the respective total amounts disclosed separately above.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Particulars of the remuneration of the directors and the five highest paid individuals for the year were as follows:

| Name of director | Fees | | Salaries and other benefits | | Share-based payment | | Retirement benefit scheme contributions | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Mr. Wong Hin Shek | **–** | – | **–** | – | **181** | – | **–** | – | **181** | – |
| Mr. Chau Lai Him | **–** | – | **–** | 120 | **–** | – | **–** | 5 | **–** | 125 |
| Mr. Chi Chi Hung Kenneth | **180** | – | **–** | – | **1,780** | – | **–** | – | **1,960** | – |
| Mr. Chu Yuk Kuen | **–** | – | **–** | 165 | **–** | 543 | **–** | – | **–** | 708 |
| Mr. Chung Kam Kwong | **–** | 115 | **–** | – | **–** | – | **–** | – | **–** | 115 |
| Mr. Lo Chao Ming | **–** | 50 | **–** | – | **–** | – | **–** | – | **–** | 50 |
| Mr. Lee Kin Keung | **–** | 295 | **–** | – | **–** | – | **–** | – | **–** | 295 |
| Mr. Chan Sio Keong | **–** | – | **–** | 536 | **–** | – | **–** | 10 | **–** | 546 |
| Mr. Chan Kwan Hung | **–** | – | **–** | 294 | **–** | – | **–** | 4 | **–** | 298 |
| Mr. Wong Yun Kuen | **60** | 1 | **–** | – | **–** | – | **–** | – | **60** | 1 |
| Mr. Chiu Wai On | **60** | 1 | **–** | – | **–** | – | **–** | – | **60** | 1 |
| Mr. Man Kwok Leung | **60** | 7 | **–** | – | **–** | – | **–** | – | **60** | 7 |
| Total | **360** | 469 | **–** | 1,115 | **1,961** | 543 | **–** | 19 | **2,321** | 2,146 |

During the current and prior years, certain directors of the Company were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in Note 37. The fair value of such options which was recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current and the prior years was included in the above directors' remuneration disclosures. There was no arrangement under which a director waived or agreed to waive any remuneration during the years.

The five highest paid individuals of the Group include two (2009: three) executive directors of the Company, details of whose remuneration are included above. The remuneration of the remaining three (2009: two) individuals for the year ended 30 June 2010 were as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries | **273** | 837 |
| Contributions to retirement benefits schemes | **12** | 14 |
| | **285** | 851 |

# Notes to the Financial Statements

For the year ended 30 June 2010

## 8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

Their emoluments fell within the following band:

| | Number of individuals | |
|---|---|---|
| | **2010** | 2009 |
| HK$Nil–HK$1,000,000 | **3** | 2 |

During the current and prior years, no share option was granted to non-director, highest paid individual in respect of their services to the Group, further details of which are included in Note 37.

There was no arrangement under which the above non-director, highest paid individuals waived or agreed to waive any remuneration during the years.

## 9. FINANCE COSTS

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest on bank borrowings and other loans wholly repayable within five years | **8,764** | 21,320 | **–** | 4,280 | **8,764** | 25,600 |

## 10. TAXATION

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong profits tax | | | | | | |
| Current year | **–** | 424 | **–** | – | **–** | 424 |
| Underprovision in respect of prior years | **–** | 302 | **–** | – | **–** | 302 |
| Taxation in the PRC | | | | | | |
| Current year | **769** | 36 | **–** | – | **769** | 36 |
| Overprovision in respect of prior years | **–** | (10,137) | **–** | – | **–** | (10,137) |
| | **769** | (9,375) | **–** | – | **769** | (9,375) |
| Deferred taxation *(Note 28)* | **(26)** | (150) | **(13,782)** | (25,835) | **(13,808)** | (25,985) |
| | **743** | (9,525) | **(13,782)** | (25,835) | **(13,039)** | (35,360) |

Hong Kong profits tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profit arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 10. TAXATION (continued)

The domestic tax rate of principal subsidiaries in the PRC is used as it is where the operations of the Group are substantially based. The standard corporate income tax rate for enterprises in the PRC is 25%, which is also the applicable corporate income tax rate for the years ended 30 June 2009 and 2010.

The tax for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss before taxation | **(166,473)** | (360,696) |
| Tax at the PRC domestic income tax rate of 25% (2009: 25%) | **(41,618)** | (90,174) |
| Tax effect of expenses not deductible for tax purpose | **77,108** | 94,259 |
| Tax effect of income not taxable for tax purpose | **(87,227)** | (33,290) |
| Overprovision in respect of prior years, net | **–** | (9,835) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions and changes in tax rates | **38,698** | 3,680 |
| Tax for the year | **(13,039)** | (35,360) |

## 11. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 30 June 2010 includes a loss of HK$18,909,000 (2009: a loss of HK$7,366,000) which has been dealt with in the financial statements of the Company.

## 12. DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 30 June 2010 (2009: HK$Nil).

## 13. LOSS PER SHARE

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

The calculation of diluted loss per share amounts is based on the loss for the year attributable to owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

# Notes to the Financial Statements
For the year ended 30 June 2010

## 13. LOSS PER SHARE (continued)

**From continuing and discontinued operations**

The calculation of the basic loss per share is based on the following data:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss for the purpose of basic and diluted loss per share | **(152,810)** | (322,603) |

| | **Number of shares** | |
|---|---|---|
| | **2010** | 2009 |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **1,585,130,950** | 228,858,862 |

**From continuing operations**

The calculation of the basic loss per share from continuing operations is based on the following data:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share | **(105,663)** | (179,423) |

The denominators used are the same as those detailed above for calculating basic and diluted loss per share for continuing and discontinued operations.

As share options outstanding during the years had an anti-dilutive effect on the basic loss per share for both years, the conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share. Therefore the basic and diluted losses per share for the respective years are equal.

Loss for the year ended 30 June 2009 attributable to owners of the Company is restated as a result of the re-presentation of the Group's iron-ore mining, manufacture and sale of iron-ore concentrated powder operation as if it had been discontinued at the beginning of the year ended 30 June 2009.

**From discontinued operations**

Basic and diluted loss per share for discontinued operations is 2.97 HK cents (2009: 62.56 HK cents (restated)) based on the loss for the year from discontinued operations attributable to owners of the Company of HK$47,147,000 (2009: HK$143,180,000 (restated)). The denominators used are the same as those detailed above for calculating basic and diluted loss per share for continuing and discontinued operations.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 14. PROPERTY, PLANT AND EQUIPMENT AND PREPAYMENTS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

| | Construction in progress | Buildings | Leasehold improvements | Equipment, furniture and fixtures | Plant and machinery | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **THE GROUP** | | | | | | | |
| **COST** | | | | | | | |
| At 1 July 2008 | 3,644 | 74,127 | 7,492 | 10,413 | 181,433 | 11,009 | 288,118 |
| Additions | 3,338 | 4,736 | – | 227 | 3,004 | – | 11,305 |
| Disposals | (1,595) | – | – | (721) | (27) | (955) | (3,298) |
| Reclassification | (32,888) | 30,639 | – | – | 2,249 | – | – |
| Currency realignment | (4) | (84) | (9) | (10) | (162) | (10) | (279) |
| Acquisition of subsidiaries under asset swap *(Note 31(i))* | 63,891 | 47,249 | – | 5,625 | 61,404 | 1,177 | 179,346 |
| Disposal of subsidiaries under asset swap *(Note 31(ii))* | (1,391) | (41,992) | – | (4,433) | (110,116) | (4,872) | (162,804) |
| At 30 June 2009 | 34,995 | 114,675 | 7,483 | 11,101 | 137,785 | 6,349 | 312,388 |
| Additions | – | 5,072 | – | 19 | 3,222 | 3 | 8,316 |
| Disposals | – | (3,559) | – | – | (452) | (991) | (5,002) |
| Disposal of subsidiaries *(Note 33)* | (34,995) | (56,317) | – | (4,670) | (27,294) | (4,346) | (127,622) |
| At 30 June 2010 | – | 59,871 | 7,483 | 6,450 | 113,261 | 1,015 | 188,080 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES** | | | | | | | |
| At 1 July 2008 | – | 8,958 | 1,332 | 4,874 | 59,286 | 3,640 | 78,090 |
| Provided for the year | – | 5,574 | 373 | 3,465 | 11,870 | 1,537 | 22,819 |
| Currency realignment | – | (10) | (2) | (4) | (50) | (3) | (69) |
| Disposals | – | – | – | (145) | (7) | (671) | (823) |
| Impairment loss | – | 6,730 | – | – | 12,891 | – | 19,621 |
| Disposal of subsidiaries under asset swap *(Note 31(ii))* | – | (8,377) | – | (3,509) | (54,224) | (2,977) | (69,087) |
| At 30 June 2009 | – | 12,875 | 1,703 | 4,681 | 29,766 | 1,526 | 50,551 |
| Provided for the year | – | 4,582 | 374 | 1,214 | 12,253 | 1,202 | 19,625 |
| Disposals | – | (429) | – | – | (80) | – | (509) |
| Impairment loss | – | 2,695 | – | 449 | 4,798 | 1,368 | 9,310 |
| Disposal of subsidiaries *(Note 33)* | – | (13,706) | – | (2,823) | (22,248) | (3,610) | (42,387) |
| At 30 June 2010 | – | 6,017 | 2,077 | 3,521 | 24,489 | 486 | 36,590 |
| **NET CARRYING AMOUNT** | | | | | | | |
| At 30 June 2010 | – | 53,854 | 5,406 | 2,929 | 88,772 | 529 | 151,490 |
| At 30 June 2009 | 34,995 | 101,800 | 5,780 | 6,420 | 108,019 | 4,823 | 261,837 |

# Notes to the Financial Statements
For the year ended 30 June 2010

## 14. PROPERTY, PLANT AND EQUIPMENT AND PREPAYMENTS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT (continued)

The Group has pledged buildings with a carrying amount at 30 June 2010 of HK$53,854,000 (2009: HK$98,194,000) to secure banking facilities granted to the Group (Note 36).

As at 30 June 2009, the prepayment amounts represented prepayments made for acquisition of items of property, plant and equipment by the Fortune Point Group (as defined in Note 33) and upon the disposal of which during the year as further detailed in Note 33, the balance was derecognised.

As at 30 June 2010, the prepayment amounts represented prepayments made for acquisition of items of property, plant and equipment during the current year, which have been utilised as of the date of approval of these financial statements.

## 15. PREPAID LEASE PAYMENTS FOR LAND

| | *Notes* | **2010**<br>***HK$'000*** | 2009<br>*HK$'000* |
|---|---|---|---|
| Net carrying amount: | | | |
| At beginning of year | | **14,606** | 64,951 |
| Charge to the profit or loss | *7* | **(261)** | (1,125) |
| Acquisition of subsidiaries under asset swap | *31(i)* | **–** | 11,450 |
| Disposal of subsidiaries under asset swap | *31(ii)* | **–** | (60,109) |
| Disposal of subsidiaries | *33* | **(4,129)** | – |
| Impairment loss | *7* | **(213)** | (488) |
| Exchange realignment | | **–** | (73) |
| At end of year | | **10,003** | 14,606 |

The Group's net carrying amount of the prepaid lease payments for land is analysed as follows:

| | **2010**<br>***HK$'000*** | 2009<br>*HK$'000* |
|---|---|---|
| Leasehold land under medium-term lease in the PRC | **10,003** | 14,606 |
| Analysed for reporting purposes as: | | |
| Non-current | **9,776** | 14,241 |
| Current | **227** | 365 |
| | **10,003** | 14,606 |

The Group has pledged prepaid lease payments for land with a carrying amount at 30 June 2010 of HK$10,003,000 (2009: HK$14,345,000) to secure banking facilities granted to the Group (Note 36).

Details of impairments are set out in Note 16.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 16. INTANGIBLE ASSET

| | Mining right<br>*HK$'000* |
|---|---|
| Cost: | |
| At 1 July 2008 and 30 June 2009 | 158,831 |
| Disposal of subsidiaries *(Note 33)* | (158,831) |
| At 30 June 2010 | – |
| Accumulated amortisation and impairment: | |
| At 1 July 2008 | 364 |
| Amortisation for the year *(Note 7)** | 422 |
| Impairment loss | 102,917 |
| At 30 June 2009 | 103,703 |
| Impairment loss ** | 55,128 |
| Disposal of subsidiaries *(Note 33)**** | (158,831) |
| At 30 June 2010 | – |
| Net carrying amount: | |
| At 30 June 2010 | – |
| At 30 June 2009 | 55,128 |

* Amortisation is provided to write off the cost of the mining right using the units of production method based on the proven and probable mineral reserves under the assumption that the Group can renew the mining right till all proven and probable reserves have been mined.

The amortisation charge for the mining right for the year is included in the Group's "cost of sales" in the consolidated statement of comprehensive income.

** In the prior years, the Group acquired 100% equity interests of Yeading Enterprises Limited and its subsidiaries (collectively referred to as the "Yeading Group") with a view that iron-ore mining business would continue to be in a fast-growing trend with immense potential and such acquisition would diversify the Group into a new business with significant growth potential. However, a number of unforeseeable and uncontrollable factors happened subsequent to such investment decision in the global economy in 2008 which resulted in the prospect of the iron-ore mining industry has not been growing as fast as expected.

The prospect of iron-ore mining business grows in line with the economy. The global recession and slower economic growth of the PRC are negatively hindering the manufacture activities in the PRC which in turn lower the demand of, and put pressure on the market price of iron-ore.

During the current year, in view of the slower economic growth of the PRC and uncertainty in the economic recovery during this period of global recession and the deteriorating operating results, the prospect of the iron-ore market will continue to be affected and the business in iron-ore mining will continue to be difficult and challenging. The Group believes that the profitability potential of the Yeading Group will be reduced in the short and medium terms. The Group considered such decline indicated that the carrying amount of the Group's iron-ore mining business has been impaired and additional impairment losses of HK$55,128,000 (2009: HK$102,917,000), HK$9,310,000 (2009: HK$19,621,000) and HK$213,000 (2009: HK$488,000) have been recognised in the profit or loss for the year ended 30 June 2010 to reduce the carrying values of the intangible asset, property, plant and equipment and prepaid lease payments for land, which are attributable assets of the iron-ore mining business, respectively to their estimated recoverable amounts. The estimated recoverable amounts of these assets of the Group were determined based on a value-in-use calculation of the Group's iron-ore mining business.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 16. INTANGIBLE ASSET (continued)

*** On 9 April 2010, the Group entered into a sale and purchase agreement to dispose of its entire interest in the Yeading Group and it was completed on 12 April 2010, details of which were set out in Note 33.

Details of the Group's mining right and exploration right as at 30 June 2009 are as follows:

| **Mines** | **Locations** | **Expiry date** | *Note* |
|---|---|---|---|
| **Mining right** | | | |
| (北堡子鐵礦)<br>Zhong Guan Town Mine | (承德市隆化縣中關鎮北堡子村)<br>Bei Bao Zi Village,<br>Zhong Guan Town,<br>Long Hua County,<br>Chengde City,<br>He Bei Province, the PRC | 10 December 2011 | |
| **Exploration right** | | | |
| (章吉營鄉孤山村孤山鐵礦)<br>Gu Shan Mine | (河北省承德市隆化縣)<br>Gu Shan Mine Gu Shan Village<br>Long Hua County,<br>Chengde City,<br>He Bei Province, the PRC | 19 October 2009 | (a) |

*Note (a):* The exploration right represented licence for the right for exploration in the specified location in the PRC, and the period of this exploration right was within 1 year. In the opinion of the directors of the Company, the mining project with the above exploration right had not reached a stage at which there was a high degree of confidence in its viability and therefore nil initial cost was capitalised for this exploration right into the exploration and evaluation asset upon the completion of the Group's acquisition of the Yeading Group and as at 30 June 2009.

# Notes to the Financial Statements
For the year ended 30 June 2010

## 17. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **1** | 1 |
| Amounts due from subsidiaries | **266,662** | 612,730 |
| | **266,663** | 612,731 |
| Less: impairment loss on amounts due from subsidiaries | **(127,656)** | (475,000) |
| | **139,007** | 137,731 |

The amounts due from subsidiaries are unsecured, interest-free and are not repayable within twelve months after the end of reporting period. The amounts due from subsidiaries in substance represent the Company's interests in the subsidiaries in the form of quasi-equity loans and therefore they are included under the non-current assets of the Company.

An accumulated impairment loss on amounts due from subsidiaries of HK$127,656,000 (2009: HK$475,000,000) was recognised as at 30 June 2010 because the related recoverable amounts of the amounts due from subsidiaries with reference to the fair values of the respective subsidiaries were estimated to be less than their carrying amounts. Accordingly, the carrying amounts of the related amounts due therefrom are reduced to their recoverable amounts.

The following list contains only the particulars of the principal subsidiaries as at 30 June 2010 which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length.

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 17. INTERESTS IN SUBSIDIARIES (continued)

| Name of company | Place of incorporation or establishment/ operation | Issued and fully paid share capital or registered capital | Proportion of nominal value of issued capital or registered capital held by the Group | Principal activities |
|---|---|---|---|---|
| Hua Yi Copper (BVI) Company Limited | British Virgin Islands | US$1 | 100% | Investment holding |
| Wah Yeung Capital Resources Limited | British Virgin Islands | US$1 | 100% | Investment holding |
| 昆山華藝銅業有限公司 Kunshan Hua Yi Copper Products Company Limited # | PRC | US$5,000,000 | 100% | Manufacture and trading of copper products |
| Brightpower Assets Management Limited | British Virgin Islands | US$1 | 100% | Investment holding |
| 昆山周氏電業有限公司 Kunshan Chau's Electrical Company Limited # | PRC | US$5,000,000 | 100% | Manufacture and trading of cable and wire products |

\# Wholly-foreign-owned enterprise

None of the subsidiaries issued any debt securities at the end of reporting period.

Except for Hua Yi Copper (BVI) Company Limited, all the subsidiaries are indirectly held by the Company.

## 18. CONVERTIBLE NOTE DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS AND LOSS ON DISPOSAL OF ASSETS CLASSIFIED AS HELD FOR SALE AND ASSOCIATED LIABILITIES

A convertible note with principal amount of HK$40,000,000 which carries coupon interest at 4% per annum with maturity date on 15 December 2011 (the "Maturity Date"), was issued by the Kong Sun Group to the Group as part of consideration for the Group's disposal of the Life-like Plants Operation in prior year, details of which are set out in Note 6(a). Kong Sun Holdings Limited's shares are listed on Main Board of the Stock Exchange.

# Notes to the Financial Statements
For the year ended 30 June 2010

## 18. CONVERTIBLE NOTE DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS AND LOSS ON DISPOSAL OF ASSETS CLASSIFIED AS HELD FOR SALE AND ASSOCIATED LIABILITIES (continued)

The Group has the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the convertible note into conversion shares; and the right, at any time during the period between 20 months after the issue of the convertible note and before the Maturity Date, to redeem, the whole or part of the outstanding principal amount of the convertible note. On the other hands, the Kong Sun Group has the right, at any time during the period commencing from the date immediately following the date of issue of the convertible note up to the day immediately prior to and exclusive of the Maturity Date, to mandatorily convert the whole of the outstanding principal amount of the convertible note registered in the name of noteholder into conversion shares at the then applicable conversion price of HK$0.1 per conversion share that subject to adjustment clauses in the convertible note agreement, or redeem any convertible note remaining outstanding at the Maturity Date at its nominal value. The convertible note may be transferred to any person but shall not be assigned or transferred to a connected person of the issuer without the prior written consent of the issuer.

Upon initial recognition, the Group has designated the convertible note as a financial asset at fair value through profit or loss and is carried at fair value as the directors considered that it is more relevant to evaluate the convertible note on a fair value basis in accordance with the Group's risk management policy. The fair value of the convertible note on the issue date was HK$15,520,000 based on a professional valuation performed by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professionally qualified valuers.

At 30 June 2010, the fair value of the convertible note is HK$8,900,000, (2009: HK$46,753,000), based on the professional valuation performed by Kovas Magni Appraisal Limited, an independent firm of professionally qualified valuers. The fair value was calculated using the Binomial Options Pricing Model. The inputs into the model were as follows:

| | **30 June 2010** |
|---|---|
| Stock price of Kong Sun | **HK$0.445** |
| Conversion price | **HK$2.000** |
| Number of issued shares of the issuer | **479,308,346** |
| Quantities of shares upon conversion | **20,000,000** |
| Dilution effect | **1.14** |
| Expected life | **1.5 years** |
| Coupon rate | **4%** |

A loss on fair value of HK$37,853,000, (2009: gain on fair value of HK$31,233,000) was recognised in the profit or loss.

During the year ended 30 Jun 2010, interest income of HK$1,689,000 (2009: HK$Nil) arising from the convertible note was recognised in the profit or loss.

During the year ended 30 June 2009, a loss on disposal of the Life-Like Plants Operation (classified as operation held for sale as at 30 June 2009) of HK$26,512,000 was recognised based on the net assets of the Life-Like Plants Operation of HK$55,477,000 at the completion date of disposal and the fair value of the aggregate consideration of HK$28,965,000 based on the fair value of (i) promissory note in the amount of HK$13,445,000; and (ii) convertible note with initial recognition amount of HK$15,520,000 (see above) issued by the Kong Sun Group to the Group upon the completion of the disposal. The promissory note was fully settled to the Group in the prior year.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 19. INVENTORIES

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **4,882** | 8,672 |
| Work in progress | **12,392** | 8,101 |
| Finished goods | **4,168** | 4,406 |
| | **21,442** | 21,179 |

## 20. DEBTORS, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in the Group's debtors, other receivables, deposits and prepayments were trade debtors with outsiders of HK$58,645,000 (2009: HK$28,899,000). The Group allows an average credit period of 0 to 90 days to its trade debtors with outsiders.

i) The aging analysis of trade debtors, net of allowance for doubtful debts, based on invoice date, is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **29,202** | 11,318 |
| 31–60 days | **11,234** | 4,228 |
| 61–90 days | **11,731** | 6,105 |
| Over 90 days | **6,478** | 7,248 |
| | **58,645** | 28,899 |

ii) The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

| | **The Group** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| At beginning of year | **364** | 6,845 |
| Impairment loss recognised *(Note 7)* | **324** | 364 |
| Disposal of subsidiaries under asset swap | **–** | (6,845) |
| Disposal of subsidiaries | **(364)** | – |
| | **324** | 364 |

At 30 June 2010, the Group's trade debtors of HK$324,000 (2009: HK$364,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that none of the receivables is expected to be recovered. Consequently, specific and full allowances for doubtful debts were recognised for such balances as at the end of respective reporting periods. The Group does not hold any collateral over these balances.

Except for the above, no allowance has been made for estimated irrecoverable amounts from the sale of goods.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 20. DEBTORS, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

iii) The aging analysis of trade debtors that are neither individually nor collectively considered to be impaired is as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **44,510** | 27,488 |
| Less than 1 month past due | **6,529** | 278 |
| 1 to 3 months past due | **6,893** | 489 |
| More than 3 months past due | **713** | 644 |
| | **58,645** | 28,899 |

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

Trade debtors that were past due but not impaired relate to a number of independent 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 hold any collateral over these balances.

At 30 June 2010, other than the trade debtors disclosed above, none of the balances included in debtors, other receivables, deposits and prepayments were either past due or impaired which there were no recent history of default.

## 21. BILLS RECEIVABLE

As at 30 June 2009 and 2010, all bills receivable aged within 180 days.

## 22. LOANS RECEIVABLE, SECURED

At 30 June 2009, there were two loans of HK$35,900,000 in aggregate due from two independent third parties. These loans were interest-bearing at 5% per annum or prime rate. The loans were secured by the borrowers' equity interests of companies engaged/to be engaged in coal and mineral mines located in Mongolia. One of the loans in the amount of HK$14,702,000 as at 30 June 2009 was repayable on 30 June 2010 and therefore this loan receivable was classified as a current asset as at 30 June 2009. The remaining loan in the amount of HK$21,198,000 as at 30 June 2009 was originally due for repayment on 31 August 2009. On 31 August 2009, the repayment date was extended to 31 August 2010, and therefore it was classified as a non-current asset as at 30 June 2009.

During the current year, the Group reviewed its loans receivable to assess whether impairment losses exist. In determining whether impairment losses should be recognised in profit or loss, the Group has evaluated its loans receivable for impairment after taking into account the values of the underlying collaterals of the borrowers. The Group had also attempted but failed to contact the two borrowers of the loans. Hence, the directors of the Company considered that the possibility to recover the loans receivable of HK$35,900,000 in aggregate is remote and concluded that the collaterals had no commercial value and therefore considered it is not cost-effective to take any action on the collaterals and therefore full impairment loss of HK$35,900,000 is recognised in the profit or loss.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 23. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | Assets | Liabilities |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Copper futures contracts | **–** | **11** | – | – |

**Copper futures contracts**

The major terms of the outstanding copper futures contracts of the Group which have not been designated as hedging instruments as at 30 June 2010 were as follows:

| | **As at 30 June 2010** |
|---|---|
| Quantities *(in tonnes)* | **50** |
| Average price per tonne | **RMB51,560** |
| Delivery period | **From June 2010 to October 2010** |
| Fair value loss of copper futures contracts recognised as current liabilities *(in HK$'000)* | **11** |

The above derivatives were measured at fair value at the end of each reporting period and were with financial institutions. The fair value of copper futures contracts was determined based on the quoted market prices at the end of reporting period. The loss on change in fair value of derivative financial instruments of HK$11,000 (2009: gain on change in fair value of HK$434,000) has been recognised in the profit or loss during the year.

## 24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong-listed equity investments, at fair value | **3,629** | – |

The above equity investments are classified as held for trading. The fair values of listed securities are based on quoted market prices.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 25. BANK BALANCES AND CASH

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy financial institutions with no recent history of default. The carrying amounts of the bank balances and cash approximate their fair values.

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| The balances were denominated in the following currencies: | | | | |
| Hong Kong Dollar | **448,669** | 82,246 | **260,857** | 21,135 |
| RMB | **5,727** | 6,362 | **–** | – |
| U.S. Dollar | **222** | 380 | **1** | 1 |
| Euro | **6** | 12 | **–** | – |
| | **454,624** | 89,000 | **260,858** | 21,136 |

The RMB is not freely convertible into other currencies, however, under Mainland China'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 banks authorised to conduct foreign exchange business.

## 26. CREDITORS, OTHER ADVANCES AND ACCRUALS

Included in the Group's creditors, other advances and accruals were unrelated trade creditors of HK$15,554,000 (2009: HK$15,220,000).

The aging analysis of these unrelated trade creditors, based on invoice date, is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **4,499** | 4,778 |
| 31–60 days | **3,883** | 2,182 |
| 61–90 days | **2,842** | 2,106 |
| Over 90 days | **4,330** | 6,154 |
| | **15,554** | 15,220 |

At 30 June 2010, included in creditors, other advances and accruals were amounts due to related companies amounted to HK$24,504,000 (2009: HK$10,894,000). The amounts were unsecured, interest-free and have no fixed terms of repayment. The above related companies have a common director with certain subsidiaries of the Company as at the end of reporting period.

# Notes to the Financial Statements
For the year ended 30 June 2010

## 27. BORROWINGS

| | **2010** **HK$'000** | 2009 *HK$'000* |
|---|---|---|
| Borrowings are analysed as follows: | | |
| Bank loans | **53,182** | 80,682 |
| Other loans | **33,056** | 27,622 |
| | **86,238** | 108,304 |
| Secured | **53,182** | 80,682 |
| Unsecured | **33,056** | 27,622 |
| | **86,238** | 108,304 |
| The carrying amounts of borrowings repayable: | | |
| Within one year shown under current liabilities | **86,238** | 96,940 |
| More than two years but not exceeding five years shown under non-current liabilities | **–** | 11,364 |
| | **86,238** | 108,304 |

The average effective interest rates of the bank loans range from 5% to 9% (2009: 5% to 9%) per annum.

Except for an amount of HK$29,056,000 at 30 June 2010 (2009: HK$23,622,000) which carried interest at fixed rates ranging from 5% to 36% (2009: 7% to 36%) per annum, other loans were unsecured, interest-free and repayable on demand.

Over 95% of the Group's borrowings are denominated in the functional currencies of the relevant group entities and therefore exposed to minimal foreign exchange rate risk.

At 30 June 2010, the Group had HK$Nil (2009: HK$5,455,000) available undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Details of the assets pledged for the Group's facilities are set out in Note 36.

# Notes to the Financial Statements
For the year ended 30 June 2010

## 28. DEFERRED TAX

The following is the major deferred tax liabilities/(assets) recognised by the Group and their movements are:

| | Accelerated tax depreciation | Intangible asset | Revaluation of properties | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 July 2008 | 14,526 | 39,617 | – | 54,143 |
| Credited to profit or loss for the year *(Note 10)* | – | (25,835) | (150) | (25,985) |
| Acquisition of subsidiaries under asset swap *(Note 31(i))* | – | – | 2,158 | 2,158 |
| Disposal of subsidiaries under asset swap *(Note 31(ii))* | (14,514) | – | – | (14,514) |
| Exchange realignment | (12) | – | – | (12) |
| At 30 June 2009 | – | 13,782 | 2,008 | 15,790 |
| Credited to profit or loss for the year *(Note 10)* | – | (13,782) | (26) | (13,808) |
| Disposal of subsidiaries *(Note 33)* | – | – | (1,256) | (1,256) |
| At 30 June 2010 | – | – | 726 | 726 |

The Group had no significant unprovided deferred tax asset or liability at the end of reporting period (2009: HK$Nil).

# Notes to the Financial Statements

For the year ended 30 June 2010

## 29. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | | *HK$'000* |
| Ordinary shares of HK$0.20 each at 1 July 2008, HK$0.05 each at 30 June 2009 and 30 June 2010 | | |
| Authorised: | | |
| As at 1 July 2008 | 1,500,000,000 | 300,000 |
| Capital reorganisation *(Note (i))* | 4,500,000,000 | – |
| As at 30 June 2009 and 30 June 2010 | 6,000,000,000 | 300,000 |
| Issued and fully paid: | | |
| As at 1 July 2008 | 885,306,500 | 177,061 |
| Capital reorganisation *(Note (i))* | (708,245,200) | (168,208) |
| Exercise of share options *(Note (ii))* | 17,700,000 | 885 |
| Issue of shares by placements *(Note (iii))* | 139,410,000 | 6,971 |
| As at 30 June 2009 | 334,171,300 | 16,709 |
| Issue of shares by placements *(Note (iii))* | 1,174,770,000 | 58,738 |
| Open offer of new shares *(Note (iv))* | 1,301,282,600 | 65,064 |
| As at 30 June 2010 | 2,810,223,900 | 140,511 |

*Notes:*

(i) A special resolution was passed at a special meeting held on 15 December 2008 approving the capital reorganisation scheme (the "Scheme") of the Company which became effective on 16 December 2008. Pursuant to the Scheme, the capital reorganisation involved:

a) Capital Reduction: the par value of each then issued existing share was reduced from HK$0.20 each to HK$0.01 each by cancellation of HK$0.19 of the paid-up capital on each of the then existing shares;

b) Sub-Division: each of the then authorised but unissued shares in the capital of the Company of par value HK$0.20 each was sub-divided into 20 shares of par value HK$0.01 each; and

c) Share Consolidation: upon completion of the capital reduction and the sub-division as mentioned in a) and b) above becoming effective, every 5 shares of HK$0.01 each in both the issued and unissued share capital of the Company were consolidated into 1 consolidated share of HK$0.05 each.

Following the implementation of the capital reorganisation set out above, the Company's authorised share capital of HK$300,000,000 was divided into 6,000,000,000 consolidated shares of par value HK$0.05 each, and the number of issued shares and the issued share capital amount were reduced by 708,245,200 and HK$168,208,000 respectively.

(ii) During the year ended 30 June 2009, 17,700,000 new ordinary shares of par value HK$0.05 each were issued at the subscription price of HK$0.421 each on exercise of 17,700,000 (Note 37) share options at an aggregate consideration of HK$7,452,000, net of issuing expenses, of which HK$885,000 was credited to share capital and the remaining balance of HK$6,567,000 was credited to the share premium account. In addition, an amount attributable to the related share options of HK$3,420,000 was transferred from share option reserve to the share premium account.

# Notes to the Financial Statements
For the year ended 30 June 2010

## 29. SHARE CAPITAL (continued)
*Notes: (continued)*

(iii) During the year ended 30 June 2010, 1,174,770,000 (2009: 139,410,000) new ordinary shares of par value HK$0.05 each were issued at subscription prices ranging from HK$0.131 to HK$0.200 (2009: HK$0.300 to HK$0.355) each to the then independent third parties of the Group at an aggregate consideration, net of issuing expenses, of HK$181,234,000 (2009: HK$42,133,000), of which HK$58,738,000 (2009: HK$6,971,000) was credited to share capital and the remaining balance of HK$122,496,000 (2009: HK$35,162,000) was credited to the share premium account.

(iv) During the year ended 30 June 2010, 1,301,282,600 new ordinary shares of par value of HK$0.05 each were issued under an open offer at the subscription price of HK$0.15 each at an aggregate consideration of HK$190,095,000, net of expenses, of which HK$65,064,000 was credited to share capital and the remaining balance of HK$125,031,000 was credited to the share premium account. Further details of the open offer are set out in the circular and prospectus of the Company dated 11 and 26 November 2009 respectively.

## 30. RESERVES

| | Share premium *HK$'000* | Contributed surplus *HK$'000* | Share option reserve *HK$'000* | Accumulated losses *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| The Company | | | | | |
| At 1 July 2008 | 124,891 | 246,018 | 10,626 | (56,126) | 325,409 |
| Issue of shares upon exercise of share options *(Note 29)* | 6,567 | – | – | – | 6,567 |
| Issue of new shares *(Note 29)* | 35,162 | – | – | – | 35,162 |
| Recognition of equity-settled share-based payment transactions *(Note 37)* | – | – | 3,420 | – | 3,420 |
| Transfer upon exercise of share options *(Note 29)* | 3,420 | – | (3,420) | – | – |
| Capital reorganisation *(Note 29)* | – | 168,208 | – | – | 168,208 |
| Cancellation and lapse of share options | – | – | (10,626) | 10,626 | – |
| Total comprehensive income for the year | – | – | – | (396,988) | (396,988) |
| At 30 June 2009 and 1 July 2009 | 170,040 | 414,226 | – | (442,488) | 141,778 |
| Issue of new shares *(Note 29)* | 122,496 | – | – | – | 122,496 |
| Open offer of new shares *(Note 29)* | 125,031 | – | – | – | 125,031 |
| Recognition of equity-settled share-based payment transactions *(Note 37)* | – | – | 15,105 | – | 15,105 |
| Total comprehensive income for the year | – | – | – | (144,109) | (144,109) |
| At 30 June 2010 | 417,567 | 414,226 | 15,105 | (586,597) | 260,301 |

# Notes to the Financial Statements

For the year ended 30 June 2010

## 31. ACQUISITION AND DISPOSAL OF SUBSIDIARIES UNDER AN ASSET SWAP ARRANGEMENT

On 5 December 2008, the Company, Wah Yeung Capital Resources Limited ("Wah Yeung"), an indirectly wholly-owned subsidiary of the Company, Solartech International Holdings Limited ("Solartech"), Chau's Industrial Investments Limited ("Chau's Industrial"), a wholly-owned subsidiary of Solartech, Chau's Electrical Company Limited ("Chau's Electrical"), an indirect wholly-owned subsidiary of Solartech entered into three sale and purchase agreements and one set-off deed (collectively referred to as the "Asset Swap"), pursuant to which the Group agreed to acquire from Solartech (i) 100% equity interest in Solartech Enterprises Limited ("Solartech Enterprises") and its subsidiaries (the "Solartech Enterprises Group") and the unsecured and interest-free shareholder's loan owed by the Solartech Enterprises Group to Chau's Industrial (the "Solartech Enterprises Shareholder Loan"); and (ii) 100% equity interest in Fund Resources Limited ("Fund Resources") and its subsidiary (the "Fund Resources Group"), and the unsecured and interest-free shareholder's loan owed by the Fund Resources Group to Chau's Electrical (the "Fund Resources Shareholder Loan") in the consideration for the Group's disposal of (i) 100% equity interest in Modern China Enterprises Limited ("Modern China") and its subsidiaries (the "Modern China Group"); (ii) 100% equity interest in Hua Yi Copper Products Company Limited ("HY Products") and its subsidiary (the "HY Products Group"); and (iii) the unsecured and interest-free shareholder's loan owed by the HY Products Group to Wah Yeung (the "HY Products Shareholder Loan"). An additional consideration of HK$20,000,000 is also payable by the Group to the Solartech and its subsidiaries under the Asset Swap. The Asset Swap was completed on 4 February 2009. Further details are set out in the Company's circular dated 31 December 2008 and announcement dated 30 December 2008.

### (i) Acquisition of subsidiaries under the Asset Swap

Accordingly, the Solartech Enterprises Group and the Fund Resources Group became subsidiaries of the Company and their results were consolidated to the Group's consolidated financial statements since the date of acquisition in the prior year.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 31. ACQUISITION AND DISPOSAL OF SUBSIDIARIES UNDER AN ASSET SWAP ARRANGEMENT (continued)

### (i) Acquisition of subsidiaries under the Asset Swap (continued)

Details of net assets of subsidiaries acquired in the Asset Swap were as follows:

| | Solartech Enterprises Group | | | Fund Resources Group | | | |
|---|---|---|---|---|---|---|---|
| | Acquirees' carrying amount before the Asset Swap | Fair value adjustments | Sub-total | Acquirees' carrying amount before the Asset Swap | Fair value adjustments | Sub-total | Fair value as at the completion date |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Property, plant and equipment *(Note 14)* | 101,171 | – | 101,171 | 75,738 | 2,437 | 78,175 | 179,346 |
| Prepayments for acquisition of property, plant and equipment | – | – | – | 14,000 | – | 14,000 | 14,000 |
| Prepaid lease payments for land *(Note 15)* | 4,188 | 3,112 | 7,300 | 1,060 | 3,090 | 4,150 | 11,450 |
| Inventories | 10,061 | – | 10,061 | 6,242 | – | 6,242 | 16,303 |
| Debtors, deposits and prepayments | 20,772 | – | 20,772 | 14,157 | – | 14,157 | 34,929 |
| Bills receivable | 2,505 | – | 2,505 | 20 | – | 20 | 2,525 |
| Bank balances and cash | 2,530 | – | 2,530 | 1,327 | – | 1,327 | 3,857 |
| Creditors, other advances and accruals | (49,394) | – | (49,394) | (15,549) | – | (15,549) | (64,943) |
| The Solartech Enterprises Shareholder Loan and the Fund Resources Shareholder Loan | (89,979) | – | (89,979) | (77,085) | – | (77,085) | (167,064) |
| Taxation | (354) | – | (354) | – | – | – | (354) |
| Borrowings | (20,682) | – | (20,682) | (44,318) | – | (44,318) | (65,000) |
| Deferred tax liabilities *(Note 28)* | – | (778) | (778) | – | (1,380) | (1,380) | (2,158) |
| Net deficiency in assets of the Solartech Enterprises Group and the Fund Resources Group | | | | | | | (37,109) |
| Assignment of the Solartech Enterprises Shareholder Loan and the Fund Resources Shareholder Loan | | | | | | | 167,064 |
| | | | | | | | 129,955 |
| Satisfied by: | | | | | | | |
| Part of consideration on disposal of subsidiaries under the Asset Swap *(Note 31(ii))* | | | | | | | 129,955 |

Since the acquisition from the Asset Swap, the Solartech Enterprises Group and the Fund Resources Group contributed an aggregate amount of HK$49,533,000 to the Group's turnover and loss of HK$12,242,000 to the operating results for the year ended 30 June 2009.

Had the acquisition taken place at the beginning of the prior year, the revenue of the Group and the loss of the Group for the prior year would have been HK$1,319,290,000 and HK$312,297,000, respectively.

# Notes to the Financial Statements
For the year ended 30 June 2010

## 31. ACQUISITION AND DISPOSAL OF SUBSIDIARIES UNDER AN ASSET SWAP ARRANGEMENT (continued)

### (ii) Disposal of subsidiaries under the Asset Swap

The assets and liabilities of the Modern China Group and the HY Products Group disposed of in the Asset Swap are as follows:

| | *HK$'000* |
|---|---|
| Property, plant and equipment *(Note 14)* | 93,717 |
| Prepaid lease payments for land *(Note 15)* | 60,109 |
| Loan receivable | 44,407 |
| Inventories | 24,780 |
| Debtors, deposits and prepayments | 152,224 |
| Bills receivable | 20,949 |
| Pledged deposits | 27,551 |
| Bank balances and cash | 66,539 |
| Creditors, other advances and accruals | (60,063) |
| Bills payable | (75,000) |
| The HY Products Shareholder Loan | (107,570) |
| Taxation | (432) |
| Borrowings | (252,393) |
| Deferred tax liabilities *(Note 28)* | (14,514) |
| Net deficiency of assets disposal of the Modern China Group and the HY Products Group | (19,696) |
| Assignment of the HY Products Shareholder Loan | 107,570 |
| Reclassification adjustments of exchange reserve upon disposal | (32,921) |
| Direct costs incurred for the disposal | 1,497 |
| Gain on Asset Swap | 53,505 |
| Consideration | 109,955 |
| Consideration satisfied by: | |
| Net deficiency in assets of the Solartech Enterprises Group and the Fund Resources Group and the Solartech Enterprises Shareholder Loan and the Fund Resources Shareholder Loan acquired *(Note 31(i))* | 129,955 |
| Amounts due to related companies as further consideration | (20,000) |
| | 109,955 |
| Net cash inflow/(outflow) on the Asset Swap: | |
| Bank balances and cash acquired | 3,857 |
| Bank balances and cash disposed of | (66,539) |
| | (62,682) |

# Notes to the Financial Statements

For the year ended 30 June 2010

## 32. GAINS ON DEEMED DISPOSAL OF A JOINTLY-CONTROLLED ENTITY AND DISPOSAL OF AVAILABLE-FOR-SALE INVESTMENT, NET

Pursuant to a capital injection agreement dated 17 October 2008, Fujian Jinyi Copper Products Company Limited ("Jinyi Copper"), the Group's then 45%-owned jointly-controlled entity increased its registered and paid-up capital by the amount of RMB160,000,000, resulting in a deemed disposal of the equity interest in Jinyi Copper by the Group. Following the deemed disposal, the Group's equity interest in Jinyi Copper was reduced from 45% to 9% and lost the joint control over the economic activities of Jinyi Copper, and therefore Jinyi Copper ceased to be a jointly-controlled entity of the Group and became an available-for-sale investment. Gain on the deemed disposal amounting to HK$7,466,000, including recognition of exchange reserve of HK$3,044,000 upon the deemed disposal, was recognised in the profit or loss for the year ended 30 June 2009.

Subsequent to the deemed disposal and on 3 April 2009, the Group entered into a sale and purchase agreement with Best Ground Group Limited, an independent third party, to dispose of its entire remaining 9% equity interest in Jinyi Copper at a net consideration of HK$19,121,000 as further detailed in the Company's announcement dated 3 April 2009. The cash consideration was partially received by the Group at the completion date of the disposal and the remaining consideration was paid in full subsequent to 30 June 2009. Loss on such further disposal on the available-for-sale investment amounting to HK$229,000 was recognised in the profit or loss for the year ended 30 June 2009.

## 33. DISPOSAL OF SUBSIDIARIES

On 20 August 2009, Hua Yi Copper (BVI) Company Limited ("HYC (BVI)"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with a purchaser pursuant to which HYC (BVI) agreed to dispose of and the purchaser agreed to purchase the entire equity interest in Fortune Point Limited and its subsidiaries (the "Fortune Point Group") at a consideration of HK$4,500,000. The disposal was completed on 24 August 2009. Details of the disposal were set out in the announcements of the Company dated 20 and 24 August 2009.

On 9 April 2010, Hua Yi Enterprises Limited ("HY Enterprises"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with a purchaser pursuant to which HY Enterprises agreed to dispose of and the purchaser agreed to purchase the Group's entire equity interest in Yeading Enterprises Limited and its subsidiaries (the "Yeading Group") at a consideration of HK$8,000,000. The disposal was completed on 12 April 2010.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 33. DISPOSAL OF SUBSIDIARIES (continued)

The assets and liabilities of the Fortune Point Group at the date of disposal were as follows:

| | *Notes* | *HK$'000* |
|---|---|---|
| Property, plant and equipment | *14* | 85,235 |
| Prepayments for acquisition of property, plant and equipment | *14* | 14,000 |
| Prepaid lease payments for land | *15* | 4,129 |
| Inventories | | 3,984 |
| Debtors, other receivables, deposits and prepayments | | 7,656 |
| Bills receivable | | 239 |
| Bank balances and cash | | 1,801 |
| Creditors, other advances and accruals | | (73,841)* |
| Borrowings | | (37,500) |
| Deferred tax liabilities | *28* | (1,256) |
| | | 4,447 |
| Gain on disposal of subsidiaries | | 13* |
| Direct costs incurred for the disposal | | 40 |
| Total consideration | | 4,500 |
| Satisfied by: | | |
| Cash | | 4,500 |
| Analysis of the net cash inflow/(outflow): | | |
| Cash consideration | | 4,500 |
| Bank balances and cash disposed of | | (1,801) |
| | | 2,699 |

* Included in the Fortune Point Group's creditors, other advances and accruals at the date of disposal was an amount due to the Group amounting to HK$44,469,000. The Group and the purchaser mutually agreed the amount repayable by instalments until 31 December 2013. Therefore, the amount was initially recognised by the Group as a non-current other receivable at the date of disposal and was discounted to its fair value at HK$37,770,000 and the difference of HK$6,699,000 was net off with the gain on disposal of subsidiaries and recognised in the profit or loss.

At 30 June 2010, the carrying value of the amount due from the Fortune Point Group was HK$36,707,000, of which HK$33,473,000 was included in other receivable under non-current assets and HK$3,234,000 was included in debtors, other receivables, deposits and prepayments under current assets. During the year, notional interest income of HK$2,013,000 was recognised in the profit or loss.

# Notes to the Financial Statements

For the year ended 30 June 2010

## 33. DISPOSAL OF SUBSIDIARIES (continued)

The assets and liabilities of the Yeading Group at the date of disposal were as follows:

| | *HK$'000* |
|---|---|
| Inventories | 8,639 |
| Debtors, other receivables, deposits and prepayments | 2,282 |
| Bank balances and cash | 60 |
| Creditors, other advances and accruals | (11,768) |
| Non-controlling interests | 624 |
| | (163) |
| Reclassification adjustments of exchange reserve upon disposal of subsidiaries | (72) |
| Gain on disposal of subsidiaries | 8,235 |
| Total consideration | 8,000 |
| Satisfied by: | |
| Cash | 8,000 |
| Analysis of the net cash inflow/(outflow): | |
| Cash consideration | 8,000 |
| Bank balances and cash disposed of | (60) |
| | 7,940 |

# Notes to the Financial Statements
For the year ended 30 June 2010

## 34. CAPITAL COMMITMENTS

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of: | | |
| Leasehold improvements | – | 33 |
| Equipment, furniture and fixtures | 2,895 | – |
| Total capital commitments | 2,895 | 33 |

## 35. LEASE COMMITMENTS

**The Group as lessee**

As at the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Within one year | – | 39 |

Leases are negotiated for an average term of three years and rentals are fixed for such period.

## 36. PLEDGE OF ASSETS

At 30 June 2010, the Group had pledged the following assets to secure general banking facilities granted to the Group. The carrying values of these assets are analysed as follows:

| | *Notes* | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Property, plant and equipment | *14* | 53,854 | 98,194 |
| Prepaid lease payments for land | *15* | 10,003 | 14,345 |
| | | 63,857 | 112,539 |

# Notes to the Financial Statements

For the year ended 30 June 2010

## 37. SHARE OPTION SCHEME

The share option scheme was adopted by the Company on 4 December 2003, which replaced its old share options scheme adopted in 1996. Under the share option scheme, the directors may, at their discretion, grant to full-time employees and executive directors of the Group the right to take up options to subscribe for shares of the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for services provided to the Company. The share option scheme, unless otherwise cancelled or amended, will expire on 3 December 2013. The subscription price of options is subject to a minimum which is the higher of the nominal value of a share, the closing price of the shares on the Stock Exchange on the date of grant and the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options.

The maximum number of unexercised share options permitted to be granted under the share option scheme must not exceed 10% of the shares of the Company in issue at any time. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the share option scheme exceeding 30% of the aggregate number of shares subject to the share option scheme, at the time it is proposed to grant the relevant option to such person.

The acceptance of an option, if accepted, must be made within 21 days from the date of the offer of the grant with a non-refundable payment of HK$1 from the grantee to the Company.

The total number of shares issued and to be issued upon exercise of options granted to each participant (including exercised, cancelled and outstanding options) in 12-month period must not exceed 1% of the shares in issue from time to time unless the same is approved by the shareholders.

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

During the year, share-based payments of HK$15,105,000 (2009: HK$3,420,000) has been charged to the profit or loss.

The following table discloses movements of the Company's share option scheme during the years:

**For the year ended 30 June 2010**

| | | | | | Number of share options | | |
|---|---|---|---|---|---|---|---|
| Capacity | Date of grant | Exercisable period | Vesting period | Exercise price *HK$* | Outstanding at 1.7.2009 | Granted during the year | Outstanding at 30.6.2010 |
| Directors | 23 February 2010 | 24 February 2010 to 23 February 2013 | Immediate on the grant date | 0.158 | – | 25,340,000 | 25,340,000 |
| Others | 23 February 2010 | 24 February 2010 to 23 February 2013 | Immediate on the grant date | 0.158 | – | 169,850,000 | 169,850,000 |
| Total | | | | | – | 195,190,000 | 195,190,000 |

# Notes to the Financial Statements

For the year ended 30 June 2010

## 37. SHARE OPTION SCHEME (continued)

### For the year ended 30 June 2009

| | | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Capacity | Date of grant | Exercisable period | Vesting period | Exercise price *HK$* | Outstanding at 1.7.2008 | Granted during the year | Exercised during the year *(Note 29(ii))* | Cancelled and lapsed during the year | Outstanding at 30.6.2009 |
| Employees | 9 December 2005 | 1 January 2006 to 31 December 2008 | 9 December 2005 to 31 December 2008 | 0.275 | 336,000 | – | – | (336,000) | – |
| Others | 9 December 2005 | 1 January 2006 to 31 December 2008 | 9 December 2005 to 31 December 2008 | 0.275 | 4,000,000 | – | – | (4,000,000) | – |
| Others | 6 April 2006 | 1 May 2006 to 30 April 2011 | 6 April 2006 to 30 April 2008 | 0.495 | 30,600,000 | – | – | (30,600,000) | – |
| | | | 6 April 2006 to 30 April 2009 | | | | | | |
| | | | 6 April 2006 to 30 April 2010 | | | | | | |
| Directors and employees | 5 November 2007 | 1 February 2008 to 31 January 2011 | 5 November 2007 to 1 February 2008 | 0.910 | 17,700,000 | – | – | (17,700,000) | – |
| | | | 5 November 2007 to 31 January 2009 | | | | | | |
| | | | 5 November 2007 to 31 January 2010 | | | | | | |
| Others | 5 November 2007 | 1 August 2008 to 31 July 2011 | 1 November 2007 to 31 July 2008 | 0.910 | 15,000,000 | – | – | (15,000,000) | – |
| | | | 5 November 2007 to 31 July 2009 | | | | | | |
| | | | 5 November 2007 to 31 July 2010 | | | | | | |
| Directors | 19 May 2009 | 20 May 2009 to 19 May 2012 | Nil | 0.421 | – | 2,810,000 | (2,810,000) | – | – |
| Employees | 19 May 2009 | 20 May 2009 to 19 May 2012 | Nil | 0.421 | – | 1,825,000 | (1,825,000) | – | – |
| Others | 19 May 2009 | 20 May 2009 to 19 May 2012 | Nil | 0.421 | – | 13,065,000 | (13,065,000) | – | – |
| Total | | | | | 67,636,000 | 17,700,000 | (17,700,000) | (67,636,000) | – |

# Notes to the Financial Statements

For the year ended 30 June 2010

## 37. SHARE OPTION SCHEME (continued)

The fair value of share options granted to employees of the Group, directors of the Company and other parties providing similar services during the year, determined at the date of grant of the shares options, is expensed over the vesting period. These fair values were calculated using the Black-Scholes Options Pricing Model. The inputs into the model were as follows:

| Date of grant | 23 February 2010 |
|---|---|
| Share price on the date of grant | HK$0.158 |
| Exercise price | HK$0.158 |
| Expected volatility | 117.72% |
| Expected life | 1.5 years |
| Risk-free rate | 0.447% |
| Expected dividend yield | Nil |

The volatility of share options granted during the year was generated from Bloomberg based on the Company's 390-day historical share prices before the dates of valuation.

The weighted average closing price of the Company's shares immediately before the dates on which share options were exercised during the prior year was HK$0.65 per share.

At the end of reporting period and the date of the approval of these financial statements, the Company had 195,190,000 share options outstanding under the share option scheme, which represented 6.9% of the Company's shares in issue as at the end of reporting period. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 195,190,000 additional ordinary shares of the Company and additional share capital of HK$9,759,000 and share premium account of HK$21,081,000 (before issue expenses).

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

## 38. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees.

Pursuant to the PRC government regulations, the Group is required to contribute to a central pension scheme in respect of certain of the Group's employees in the PRC based on a certain percentage of the salaries of those employees and there is no forfeited contribution under the central pension scheme.

The retirement benefits cost charged to the profit or loss represents contributions payable to the schemes by the Group at rates as specified in the rules of the schemes.

During the year, the Group made retirement benefits schemes contributions of HK$370,000 (2009: HK$989,000).

# Notes to the Financial Statements

For the year ended 30 June 2010

## 39. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, during the year, the Group entered into the following transactions with related companies:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Rental expenses of office premises | – | 251 |
| Rental income of staff quarters | – | 537 |
| Management fee income | – | 646 |

During the year, the Group sold goods to and purchased goods from the related companies in the amount of HK$58,768,000 (2009: HK$149,930,000) and HK$1,266,000 (2009: HK$1,498,000), respectively. These companies are related companies of the Group as a director of these companies is also a director of certain subsidiaries of the Company.

The above transactions were determined with reference to the terms mutually agreed between the Group and the relevant parties. Further details of connected transactions of the Group are set out in the directors' report.

**Compensation of key management**

The key management of the Group comprises all directors and the five highest paid employees, details of their remuneration are disclosed in Note 8.

## 40. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which includes the borrowings disclosed in Note 27, bank balances and cash in Note 25 and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in the consolidated statement of changes in equity.

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of management, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or redemption of existing debts.

The gearing ratio at the end of reporting periods were as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Debts | **86,238** | 108,304 |
| Bank balances and cash | **(454,624)** | (89,000) |
| Net debts | **(368,386)** | 19,304 |
| Equity | **630,678** | 397,126 |
| Net debts to equity ratio | **N/A** | 5% |

# Notes to the Financial Statements

For the year ended 30 June 2010

## 41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 30 June 2010 and 2009 may be categorised as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | |
| Derivative financial assets at fair value | **8,900** | 46,753 |
| Financial assets at fair value through profit or loss | **3,629** | – |
| Loans and receivables (including bank balances and cash) at amortised cost | **574,741** | 164,731 |
| **Financial liabilities** | | |
| Derivative financial liabilities at fair value | **11** | – |
| Financial liabilities measured at amortised cost | **137,612** | 163,269 |

# Financial Summary

## RESULTS

| | Year ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | **324,966** | 1,197,276 | 3,075,921 | 2,748,039 | 1,513,166 |
| (Loss)/profit before taxation | **(166,473)** | (360,696) | 22,308 | (14,806) | 109,489 |
| Taxation | **13,039** | 35,360 | (11,354) | 652 | (19,185) |
| (Loss)/profit for the year | **(153,434)** | (325,336) | 10,954 | (14,154) | 90,304 |
| (Loss)/profit attributable to: | | | | | |
| Owners of the Company | **(152,810)** | (322,603) | 10,663 | (14,154) | 90,304 |
| Non-controlling interests | **(624)** | (2,733) | 291 | – | – |
| | **(153,434)** | (325,336) | 10,954 | (14,154) | 90,304 |

## ASSETS AND LIABILITIES

| | At 30 June | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **771,442** | 578,234 | 1,546,321 | 1,327,063 | 1,150,298 |
| Total liabilities | **(140,764)** | (181,108) | (839,148) | (846,008) | (649,289) |
| Shareholders' equity | **630,678** | 397,126 | 707,173 | 481,055 | 501,009 |