寶源控股有限公司

Bao Yuan Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 692)

2010

Annual Report

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive directors:

Mr. Yiu Ching On
(Chairman and resigned on 12 July 2010)
Mr. Yiu Kwok Ming, Tommy
(Vice-Chairman and Managing Director)
Mr. Chan Yiu Fai *(appointed on 12 July 2010)*
Mr. Wong Man Pan *(appointed on 6 October 2010)*
Mr. Yim Hin Keung *(appointed on 10 August 2010)*
Mr. Wong Wai Man *(resigned on 31 December 2010)*
Mr. Leung Kwok Ip *(resigned on 10 August 2010)*

Independent non-executive directors:

Mr. Wong Chun Hung *(appointed on 2 July 2010)*
Mr. Cheung Cho Yiu
Mr. Liang Jin An
Mr. Chan Kin Wah, Billy *(resigned on 2 July 2010)*

COMPANY SECRETARY

Ms. Chuen Pui Ming, Alice
(appointed on 29 October 2010)
Mr. Wong Ho Yin *(resigned on 29 October 2010)*

SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

Ascenda Cachet CPA Limited
Certified Public Accountants
13F Neich Tower
128 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Edward Wong Credit Limited
Shanghai Commercial Bank Limited
Bank of Communications Co., Limited

LEGAL ADVISORS

Angela Ho & Associates
W.K. To & Co.

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

25th Floor
Overseas Trust Bank Building
160 Gloucester Road
Wanchai
Hong Kong

To Shareholders,

On behalf of the board of directors of the Company, I hereby present the annual report for the year ended 31 December 2010.

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

FINANCIAL RESULTS

In 2010, although the global recession slowed down and the economy started to show some signs of recovery, the global economic condition remained uncertain.

During the year under review, the Group has recognised a loss attributable to the owners of the Company of HK$78.1 million, as compared with a net loss of approximately HK$13.1 million in last year. The loss per share for the year ended 31 December 2010 was HK$3.85. Such increase in net loss was mainly due to the imputed interest cost of the convertible bonds issued by the Company during the year under review. Despite the total number of the Company's issued ordinary shares would have been 245,123,000 (after adjusting for the 20 to 1 share consolidation after the 31 December 2010), the weighted average number of ordinary shares in issue for the purpose of calculating the basic loss per share is approximately 20,262,000. This is mainly due to the fact that the eight-for-one rights issue was only effective from 21 December 2010 and only 11 days effect was taken into account in the above calculation. If the rights issue is assumed to have been effective from 1 January 2010, the weighted average number of ordinary shares in issue for the purpose of calculating the basic loss per share would have been significantly increased and, accordingly, the basic loss per share would have been significantly reduced.

Affected by the misty global economic environment, revenue from continuing operations decreased by approximately HK$22.3 million over last year to approximately HK$198.1 million. The decrease was due to the drop in revenue contributed from the businesses in the United States, as the consumer sentiment index in the United States remained weak. As a result of the continuously upsurge on cost of cotton and keen competition in the textile industry in the PRC, the Group's gross profit margin decreased from 11.8% to 8.8%. The gross profit for the year also decreased by 33.1% to approximately HK$17.5 million.

Despite the drop in the Group's revenue, distribution costs included costs related to sales and marketing functions of the Group increased slightly by 5.3% to HK$12.8 million. This was mainly due to the increased marketing activities of the garments trading in Europe as a result of the Group's continuously exploring potential growth in garments trading and diversifying the customer bases of textile industry in other areas. Administrative expenses generally included costs related to the supporting functions of the Group. During the year under review, the administrative expenses from continuing operations increased by 65.7% to approximately HK$26.4 million. Such significant increase was mainly attributable to the legal and professional fee incurred for the acquisition of the mining business and the disposal of subsidiaries of the Group.

Other operating expenses from continuing operations decreased by 4.1% to HK$4.7 million for the year. Due to the gradual recovery of the economy and to better control the Group's exposure to credit risk and liquidity risk, the Group generally requested the customers to settle payment before delivery of goods and accepted orders from customers with good repayment record. Therefore, during the year under view, impairment of trade receivables decreased by HK$0.2 million to HK$0.27 million. Debtors turnover day was significantly shortened to 15 days. The Group generated a significant increase in cash and cash equivalents of about HK$109.2 million and, as stated in the consolidated statement of financial position, maintained a cash and cash equivalents of approximately HK$136.8 million as at 31 December 2010.

On 30 March 2010, the Group acquired an iron and titanium dioxide mine, at a consideration of HK$1,680 million, through the acquisition of a mining company in order to broaden the income base of the Group and diversify its business into the non-ferrous industry. The mining company held a mining license under which the company has the right to conduct mining and exploitation works in a mine located at Ziyang County, Shaanxi Province, the PRC.

The Group has intended to dispose of the fabric processing operation in Zhongshan, the PRC, for several years given that it was unable to reap as substantial a profit to the Group as other subsidiaries. Furthermore, in order to segregate the Group's lines of businesses clearly and to reallocate the Group's resources into the new business venture, i.e. exploitation of mineral resources, and the sale of fabrics and garments, the Group considered disposing of the subsidiaries that are unable to reap as substantial a profit to the Group. On 2 September 2010, the Group has entered into a sale and purchase agreement to dispose of several subsidiaries which were mainly engaged in the sale of fabrics at a consideration of HK$45.8 million. Such disposal was completed on 29 October 2010.

REVIEW OF OPERATION

Sale of Fabrics, Garments and Accessories

Revenue generated from sale of fabrics, garments and accessories decreased by HK$22.7 million to HK$197.6 million. The decrease was mainly due to the drop in revenue contributed from garment trading in the United States. Although the global recession was slow down in 2010 and the United States was on the way to recovery, the consumer sentiment index in the United States remained weak. Furthermore, the Group's garment customers generally adopted a "wait and see attitude", held inventories at a lower level and placed garment order just before the inventories consumed. To minimize the distress caused by the decrease in revenue in the United States, the Group started to explore the market of fabrics, garments and accessories in other areas, such as Europe in order to maintain the profitability of this segment in long-term.

Trading in Securities

To make the best use of the Group's cash in hand, the Group started trading in securities from the fourth quarter of 2010. By maximizing the aggregate annual return, the Group mainly invested in the listed companies in Hong Kong. Besides, other investment vehicles e.g. banknotes, convertible bonds, debentures and etc., will also be considered. During the year under review, we recorded about HK$0.47 million of revenue.

Iron & Titanium Mining

To broaden our sources of earnings, the Group acquired an iron and titanium dioxide mining company in China on 30 March 2010. The mining company holds a mining license with which the company has the right to conduct mining and exploitation works in a mine located at Ziyang County, Shaanxi Province, the PRC. Exploration on the mine was completed. Restructure of the management committee was accomplished. During the year under review, the mining business recorded a loss of HK$1.5 million which was mainly attributable to the administrative expenses.

The Group owns the mining rights with a total area of 7.89 square km. During the period under review, details of the resources and reserves are shown below:

Resources and Reserves of the iron ("TFe") and titanium doxide ("TiO_2") mines under the JORC Code

(a) Resource summary (includes reserves)

	Tonnage (Mt)	Grades TFe(%)	TiO_2(%)	Contained metals TFe (Kt)	TiO_2 (Kt)
Taoyuan area					
Measured and indicated	40.7	29.4	13.9	11,966	5,657
Inferred	18.2	29.9	13.6	5,442	2,475
Dazuomugou area					
Measured and indicated	9.9	29.5	13.0	2,920	1,287
Inferred	11.1	29.1	13.9	3,230	1,543

(b) Reserve summary

	Tonnage (Mt)	Grades TFe(%)	TiO_2(%)	Contained metals TFe (Kt)	TiO_2 (Kt)
Taoyuan area					
Proved	21.5	29.4	14.0	6,321	3,010
Probable	19.2	29.4	13.8	5,645	2,650
Dazuomugou area					
Proved	—	—	—	—	—
Probable	9.9	29.5	13.0	2,920	1,287

Discontinued Operation

On 4 August 2008, the Group discontinued the fabric processing business in Zhongshan, the PRC and accordingly, the fabric processing operation was reclassified as a discontinued operation and all plant and machineries of the fabric processing operation was classified as assets classified as held for sale. On 29 October 2010, the Group has disposed of such fabric processing business in Zhongshan together with several subsidiaries which were principally engaged in the business of sale of fabrics and/or garments in the PRC and in Hong Kong at a consideration of HK$45.8 million.

Prospect and Outlook

The Group expects the operating environments of trading of fabrics, garments and accessories to remain challenging in 2011. Since the second half of 2010, the price of all kinds of textile raw materials, e.g. cotton, increased significantly and impaired the profitability of the textile industry in Hong Kong and the PRC. Although the challenges in the industry remain inevitably severe, the Group will concentrate its efforts on reinforcing its financial position to overcome the market volatility. To retain the comparative advantages in textile industry in 2011, the Group will continually stick to its profit-oriented strategy, deploy its financial resources only in high profit margin orders, be cautious in sourcing dyed fabrics from reliable fabric suppliers to maintain quality and volume, diversity the customer bases to minimize the downside exposure caused by the financial crisis.

In view of the global investment environment, there are a number of swing factors in 2011. The Group sees that the financial crisis in the Euro area, the misty US economic conditions as well as the bottoming interest rates cycles in various countries and regions are the key ones. The financial markets are likely to be more volatile in the coming year. As such, the Group will selectively and prudently invest in the dynamic environment ahead.

Owing to the fast economic growth in the PRC, there is a huge demand for iron and titanium. Over 98% of iron ore is applied to the steel industry. With the rise in freight charges and uncontrollable imported iron ore pricing, local iron ore is preferable by the steel industry in China. Titanium is also in great demand and has a wide variety of applications such as aerospace, sport equipment, cosmetics, etc. To capitalize on these growing opportunities, the Group are proceeding to apply for various licenses and permits for operating the mine. The Group consider that the prospect for the mining and sale of the metals remains attractive in the years ahead.

Liquidity and Financial Resources

At 31 December 2010, the Group had total assets of HK$1,844.9 million which were financed by total liabilities of HK$570.4 million and equity of HK$1,274.6 million. Accordingly, the Group's ratio of debts to total assets and debts to equity are 30.9% (2009: 59.3%) and 44.7% (2009: 145.9%), respectively.

The Group generally financed its operation by internal cash resources, bank financing and several fund raising activities, including placing of new shares and rights issue. At 31 December 2010, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK$138.7 million (of which about HK$1.9 million was pledged with banks for banking facilities for the Group) and unutilised banking facilities for a total of about HK$83.5 million, which we consider sufficient for normal daily operation and expansion in 2011.

CAPITAL STRUCTURE

(I) Pursuant to the ordinary resolution passed on 17 March 2010, the authorised share capital of the Company had been increased from HK$250,000,000 to HK$1,500,000,000 by the creation of an additional 25,000,000,000 shares of HK$0.05 each ranking pari passu in all respects with the existing shares of the Company.

In early November 2009, the Group entered into a sale and purchase agreement to acquire an iron and titanium dioxide mine in the PRC. The deal was completed on 30 March 2010. On completion, the Group issued convertible bonds (the "Convertible Bonds") in a principal amount of HK$1,680 million as consideration. The Convertible Bonds bear interest at 2% per annum with a maturity date on 29 March 2013. The convertible bonds holder(s) of the Convertible Bonds have the right to convert on or after 30 March 2010 up to and including 29 March 2013, into ordinary share of the Company at an initial conversion price of HK$0.22 per share, subject or adjustment for general dilutive events.

During the year ended 31 December 2010, total principal of HK$823,200,000 were converted into 850,000,000 and 14,459,090,908 new ordinary shares of the Company at HK$0.22 and HK$0.044 each, respectively. The Company has early redeemed part of the Convertible Bonds of HK$170 million before the maturity date. The outstanding principal amounts of the Convertible Bonds as at 31 December 2010 was HK$686,800,000.

(II) During the year ended 31 December 2010, the issued share capital of the Company had the following changes:

Issue of shares upon conversion of convertible bonds:

(a) The Company issued 850,000,000 shares to convertible bond holder(s) for the conversion of HK$187 million convertible bonds at a conversion price of HK$0.22 per share.

(b) The Company issued 14,459,090,908 shares to convertible bond holder(s) for the conversion of HK$636.2 million convertible bonds at an adjusted conversion price of HK$0.044 per share.

Share subdivision:

On 4 May 2010, the Company subdivided each issue and unissued share of HK$0.05 each of the Company into 5 subdivided shares of HK$0.01 each. Therefore, the authorized share capital of the Company was HK$1,500,000,000 divided into 150,000,000,000 subdivided shares.

Issue of shares upon exercise of share options:

On 14 May 2010, the Company issued 8,000,000 shares to a share option holder at an adjusted exercise price of HK$0.014 per share. The Company received proceeds of approximately HK$0.11 million.

Issue of shares through placement:

(a) On 16 August 2010, the Company issued 2,057,767,649 shares of HK$0.01 each at the placing price of HK$0.01 each.

(b) On 12 October 2010, the Company issued 90,786,423 shares of HK$0.001 each at the placing price of HK$0.275 each.

Share consolidation:

On 2 September 2010, every fifty issued and unissued shares of HK$0.01 each were consolidated into one consolidated share of HK$0.5 each. The paid up capital was cancelled to an extent of HK$0.499 on each consolidated share from HK$0.5 to HK$0.001.

Issue of rights issue:

On 21 December 2010, the Company issued 4,357,748,320 shares by rights issue in the proportion of eight rights shares for every one existing share held on 26 November 2010, at a subscription price of HK$0.05 per rights share.

PLEDGE OF ASSETS

At 31 December 2010, the Group's bank deposits of approximately HK$1.9 million were pledged with banks for banking facilities of the Group.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES AND TRADING SCHEMES

At 31 December 2010, the Group employed about 26 employees including sales and merchandising, accounting and administrative staff in Hong Kong, China and Bangladesh. The total staff costs and directors' remuneration for the year were approximately HK$18.7 million. Employees are remunerated based on market and industry practice. The remuneration policy and package of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 30 March 2010, the Group acquired a mining company in order to broaden the income base of the Group and diversify its business into the non-ferrous industry. Upon completion, the Group issued convertible bonds in a principal amount of HK$1,680 million as consideration. The mining company held a mining license under which the company has the right to conduct mining and exploitation works in a mine located at Ziyang county, Shaanxi Province, the PRC. Exploration on the mine was completed. The management of the Group will closely monitor the progress and execution of the capital injection plans which may be updated from time to time with reference to the business environment and the development of the mining businesses as well as the availability of the Group's financial resources at the time.

On 4 August 2008, the Group discontinued the fabric processing operation in Zhongshan, the PRC, and maintained its plant and machineries in the dyeing factory in workable conditions and classified as assets classified as held for sale. On 2 September 2010, the Group has entered into a sale and purchase agreement with Cotton Row Limited to dispose of the fabric processing operation in Zhongshan together with several subsidiaries which were principally engaged in the business of sale of fabrics and/or garments in the PRC and in Hong Kong. Such disposal was completed on 29 October 2010. The disposed subsidiaries were disposed at a premium of HK$ 4 million. Due to the release of the exchange reserve of the disposal group of HK$13.6 million, the Group has recognised a total gain of disposal of HK$17.7 million.

APPRECIATION

I wish to extend my most sincere thanks and appreciation to staff at all level within the Group and my fellow directors of their collective efforts, loyalty and continuing support to the Group during the year.

Yiu Kwok Ming, Tommy
Vice-Chairman

Hong Kong, 31 March 2011

EXECUTIVE DIRECTORS

Mr. Yiu Kwok Ming, Tommy, aged 49, is the Vice-Chairman and the Managing Director of the Company. He is responsible for the business development and the overall management of the Group. He also assists in liaising and maintaining relationship with various local government authorities in the PRC. He has extensive experience in the textile and dyeing industries in Hong Kong and the PRC. He holds a bachelor degree in accounting from San Francisco State University of California. Prior to joining the Group in 1987, he worked for Exxon Corporation, a listed company in the United States, in its accounting and administration division.

Mr. Chan Yiu Fai, aged 45, has nearly 20 years of solid experience in the U.S., Canadian and Hong Kong investment markets. His professional background includes investing in equities, commodities, foreign exchange and mutual funds. He has worked as Head of Investment Research, Investment Manager, Investment Advisor and Financial Planner. Besides, he was educated in Canada and Hong Kong. He holds a Bachelor of Arts (Honours), Bachelor of Commerce and Postgraduate Certificate in Electronic Business.

Mr. Yim Hin Keung, aged 37, is known by the public as the Champion of Apprentice Jockey Award in 1994-1995 and 1995-1996 respectively. He is a sport commentator in Hong Kong Jockey Club and racing booklet writer in Hong Kong Daily News. Besides, he has been strategic investors and directors of different companies over the past 7 years in such industries as agricultural, chemicals, manufacturing and trading. Mr. Yim's extensive experience in investing and strong business networks are solid assets to the Company.

Mr. Wong Man Pan, aged 30, holds Master and Bachelor's (Hons) degree in Mechanical Engineering from The Hong Kong Polytechnic University. Mr. Wong has concrete knowledge and experience in project management and strategic planning in the manufacturing sector over 7 years.

PROFILE OF THE MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Cho Yiu, aged 46, was appointed as an independent non-executive director on 7 August 2007. He has over 20 years of experience in corporate management in trading business. He is currently a director of a privately-owned motor trading company in Hong Kong. He is also the past president of The Rotary Club of Kowloon East, Hong Kong and is actively participating in various charitable activities.

Mr. Wong Chun Hung, aged 37, graduated from Hong Kong Baptist University with honors degree in accounting in 1995. Mr. Wong is an associate of Hong Kong Institute of Certified Public Accountants. Mr. Wong has over 10 years' experience in accounting, auditing and consulting, including semi-senior audit assistant and senior audit assistant of Cheng, Kwok & Chang, Certified Public Accountants from September 1996 to October 1998 and from October 1998 to December 1999 respectively, auditor of Moores Rowland Certified Public Accountants from March 2000 to May 2001, accountant of Nam Pei Hong Nominees Limited, a wholly-owned subsidiary of Hong Kong Pharmaceutical Holdings Limited, a listed company on the Main Board of the Stock Exchange, from May 2001 to March 2002, and a managing director of B&C Finance and Corporate Advisory Limited from November 2005 until now. In addition, Mr. Wong is currently under employment as financial controller of General Nice Group as well as its associate, Abterra Limited, which is a listed company in Singapore from 1 September 2009 to 5 January 2010 respectively. He is an independent non-executive director of Tech Pro Technology Development Limited and Pacific Plywood Holdings Limited, the shares of which are listed on the Stock Exchange.

Mr. Liang Jin An, aged 44, was appointed as an independent non-executive director on 25 July 2007. He has over 20 years of experience in finance, general management and property development in the PRC. He is currently a vice president and vice general manager of a privately-owned cosmetics manufacturing company in Guangzhou, the PRC. He was previously the financial controller and vice general manager of a well established property developer in Guangzhou from 1997 to 2005.

SENIOR MANAGEMENT

Ms. Chuen Pui Ming, Alice, aged 28, is the Financial Controller and Company Secretary of the Group. She is a member of the Hong Kong Institute of Certified Public Accountants. She holds a Bachelor of Science Degree in Accounting and Finance from the London School of Economics and Political Science. Prior to joining the Group in mid 2010, she had worked in Ernst & Young and gained extensive experience in accounting and auditing practices.

CORPORATE GOVERNANCE PRACTICES

The Board of Directors and senior management of the Company are committed to implement effective corporate governance policies to ensure that all decisions are made in the best interest of the Company and in accordance with the principles of transparency, fairness and integrity. Effective corporate governance policies have also been provided for the necessary checks and balances. The Company will continue to improve its corporate governance structure, so as to strengthen corporate monitoring and management to meet the expectations of its shareholders and stakeholders.

For the year under review, the Company has adopted with all applicable code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. As confirmed by all directors after specific enquiry, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

BOARD OF DIRECTORS

At 31 December 2010, the Board comprises four executive directors, namely Mr. Yiu Kwok Ming, Tommy (Vice-Chairman and Managing Director), Mr. Chan Yiu Fai, Mr. Wong Man Pan and Mr. Yim Hin Keung and three independent non-executive directors, namely Mr. Wong Chun Hung, Mr. Cheung Cho Yiu, and Mr. Liang Jin An. The independent non-executive directors are all experienced individuals from a range of industries. Their mix of skills and experience is an important element in the proper functioning of the board and in ensuring a high standard of objective debate and overall input to the decision-making process. The independent non-executive directors may seek for professional advice at the Company's expenses in carrying out their functions. Pursuant to the Listing Rules, every independent non-executive director has confirmed his independence with the Stock Exchange and provided an annual confirmation of his independence to the Company. The biographical details of all directors and their family relationship, if any, are provided on pages 9 to 10 of this annual report. The Board had arranged insurance cover for their directors.

The Board is accountable to shareholders. Its key responsibilities include the formulation of long-term business directions and strategies, monitoring of internal control, review of financial statements and approval of capital expenditures. The management is delegated with the authority to make decisions on daily operations related to the Company's business affairs. The Board reviews the performance of the management to ensure company policies are carried out properly and the business is run smoothly in the best interest of its shareholders.

Directors are entitled to seek independent professional advice at the Company's expense in connection with their duties and responsibilities as directors, subject to the prior consent of the Chairman.

Twenty-eight plenary board meetings were held during the year, eleven of which were held through telephone conference. Meeting agenda were settled by the Chairman or Vice-Chairman to ensure adequate coverage of financial, strategic and major risk areas throughout the year. The attendance of directors at the meetings was as follows:

Members	**Number of Board meetings attended/held**	**Percentage of Board meetings attended**
Executive directors		
Mr. Yiu Ching On	7/28	25%
Mr. Yiu Kwok Ming, Tommy	17/28	61%
Mr. Chan Yiu Fai	17/28	61%
Mr. Wong Man Pan	11/28	39%
Mr. Wong Wai Man	17/28	61%
Mr. Yim Hin Keung	18/28	64%
Mr. Leung Kwok Ip	5/28	18%
Independent non-executive directors		
Mr. Chan Kin Wah, Billy	0/28	0%
Mr. Cheung Cho Yiu	4/28	14%
Mr. Wong Chun Hung	6/28	21%
Mr. Liang Jin An	5/28	18%

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

The posts of Chairman and CEO are separate. There is a clear distinction between their responsibilities. The Chairman is responsible for the Company's overall business directions and coordination between the Board and the Company's management, and the CEO is responsible for the business operations and executions of decisions made by the Board. Subsequent to the resignation of Mr. Yiu Ching On as the Chairman of the Company in July 2010, the Company is in the process of identifying suitable candidate to fill the vacancy for the Chairman.

TERMS OF APPOINTMENTS AND RE-ELECTION OF DIRECTORS

At every annual general meeting ("AGM"), one third of the directors (other than the Chairman and CEO but including independent non-executive directors), or the nearest number to one third, shall retire from office and be eligible for re-election. A director appointed since the most recent AGM shall hold office only until the next AGM and shall then be eligible for re-election. The directors to retire each year shall be the directors longest in office since being elected or re-elected. The independent non-executive directors were appointed at specific terms for three years.

AUDIT COMMITTEE

The monitoring and assessment of certain governance matters are allocated to committees which operate under defined terms of reference and are required to report to the full board on a regular basis.

The Audit Committee is primarily responsible for monitoring reporting, accounting, financial and control aspects of the executive management's activities. It also monitors the function of the Group's external auditors. At 31 December 2010, the Audit Committee comprises three independent non-executive directors, namely Mr. Wong Chun Hung (Chairman of the Committee), Mr. Cheung Cho Yiu and Mr. Liang Jin An. Two meetings were held during the year.

Members	**Number of Audit Committee meetings attended/held**	**Percentage of Audit Committee meetings attended**
Independent non-executive directors		
Mr. Wong Chun Hung	1/2	50%
Mr. Cheung Cho Yiu	1/2	50%
Mr. Liang Jin An	2/2	100%

REMUNERATION COMMITTEE

The Remuneration Committee was established to determine the compensation structure and rewards for the CEO and other executive directors and monitors the policies being applied in remunerating other senior executives. The Remuneration Committee comprises three independent non-executive directors, namely Mr. Wong Chun Hung (Chairman of the Committee), Mr. Cheung Cho Yiu and Mr. Liang Jin An, and one executive director, namely Mr. Yiu Kwok Ming, Tommy. During the year, one Remuneration Committee meeting had been convened to discuss the remuneration policy of the Group.

Members	**Number of Remuneration Committee meetings attended/held**	**Percentage of Remuneration Committee meetings attended**
Executive director		
Mr. Yiu Kwok Ming, Tommy	0/1	0%
Independent non-executive directors		
Mr. Liang Jin An	1/1	100%
Mr. Wong Chun Hung	1/1	100%
Mr. Cheung Cho Yiu	1/1	100%

FINANCIAL REPORTING

It is the responsibility of the Board to present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. The Board acknowledge their responsibility for the preparation of accounts which give a true and fair view. The financial statements are prepared in accordance with the requirements of the Listing Rules and other applicable regulations and industry best standards.

The responsibilities of independent external auditors to the shareholders are set out on pages 21 to 22 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times. The system of internal controls aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

During the year under review, the Board has reviewed the internal control policy and concluded that in general, the Group's internal control system is effective and adequate, no material deficiencies have been identified.

EXTERNAL AUDITORS

The Company's independent external auditors are Ascenda Cachet CPA Limited. The Audit Committee is responsible for considering the appointment of the external auditors and also reviews any non-audit functions performed by the external auditors for the Group. In particular, the Audit Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest.

During the year ended 31 December 2010, the services provided by the Company's independent external auditors to the Group were as follows:

	2010 ***HK$'000***	2009 *HK$'000*
Audit services	**400**	310
Other assurance services	**310**	280

COMMUNICATIONS WITH SHAREHOLDERS

The Company uses a number of formal communication channels to account to shareholders for the performance of the Company. These include the Annual Report, the Interim Report, periodic announcements made through the Stock Exchange and through AGM. Copies of relevant corporate and financial information are also made available through the Company's website: www.baoyuan.com.hk.

The Company aims to provide its shareholders and potential investors with high standards of disclosure and financial transparency. In order to provide effective disclosure to investors and potential investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcements as required by the Listing Rules. The Company also welcomes comments and questions from shareholders at its AGM.

The directors submit their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 17 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 101.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 27 and note 33(b) to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2010, the Company had no distributable reserves. However, the Company's share premium account, in the amount of HK$959,486,000, may be distributed in the form of fully paid bonus shares and the Company's contributed surplus is available for distribution under the conditions as detailed in note 33(b) to the financial statements.

DONATIONS

During the year, the Group made charitable donations amounting to HK$40,250.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of the movements in property, plant and equipment and investment properties of the Group are set out in notes 15 and 16 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 32 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group at 31 December 2010 are set out in notes 24 and 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 102.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

DIRECTORS

The directors during the year were:

Executive directors

Mr. Yiu Ching On *(Chairman and resigned on 12 July 2010)*
Mr. Yiu Kwok Ming, Tommy *(Vice-Chairman and Managing Director)*
Mr. Chan Yiu Fai *(appointed on 12 July 2010)*
Mr. Wong Man Pan *(appointed on 6 October 2010)*
Mr. Yim Hin Keung *(appointed on 10 August 2010)*
Mr. Leung Kwok Ip *(resigned on 10 August 2010)*
Mr. Wong Wai Man *(resigned on 31 December 2010)*

Independent non-executive directors

Mr. Wong Chun Hung *(appointed on 2 July 2010)*
Mr. Cheung Cho Yiu
Mr. Liang Jin An
Mr. Chan Kin Wah, Billy *(resigned on 2 July 2010)*

In accordance with Clause 99 of the Company's bye-laws, Mr. Cheung Cho Yiu, will retire by rotation at the forthcoming annual general meeting and pursuant to Clause 102(A) of the Company's bye-laws, Mr. Chan Yiu Fai, Mr. Yim Hin Keung, Mr. Wong Man Pan and Mr. Wong Chun Hung will retire at the forthcoming annual general meeting. All the retiring directors are eligible for re-elections.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in "Related party transactions" set out in note 42 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out on pages 9 to 10.

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2010, the directors or their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Shares — long position

The Company:

	Number of shares held				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Mr. Yiu Kwok Ming, Tommy	20,724,519	—	—	—	20,724,519

Interest in underlying share

The directors of the company have been granted options under the Company's share option scheme, details of which are set out in note 34 to the financial statements.

Save as disclosed above and note 34 to the financial statements, at no time during the year had the directors (including their spouse and children under 18 years of age) have any interest in, or been granted, or exercised, any rights to subscribe for shares or debentures of the Company and its associated corporations.

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Any parties (other than the directors) have long positions in the shares and underlying shares as recorded in the register are required to be kept by the Company pursuant to Section 336 of the SFO. As at 31 December 2010, there are no substantial shareholders.

Interest in underlying shares

Name	Number of underlying shares interested	Percentage of issued share capital at 31 December 2010
Maple Creation Limited *(Note a and b)*	1,131,466,227	23.08%

Notes:

(a) Maple Creation Limited is legally and beneficially owned as to 100% by Mr. Fung Man Chun. As at 31 December 2010, it held HK$686,800,000 convertible bonds of the Company.

(b) In early November of 2009, the Group entered into a sale and purchase agreement with Maple Creation Limited, Pretty Wise Limited, Hay Sing Limited and Keen May Limited to acquire an iron and titanium dioxide mine in the PRC at a consideration of HK$1,680 million. The deal was completed on 30 March 2010. Upon the completion, the Group issued convertible bonds to them in a principal amount of HK$1,680 million as consideration. The interests represent the maximum number of new shares which may be issued upon the full conversion of convertible bonds issued by the Company on 30 March 2010 at the conversion price HK$0.607 per share.

CONNECTED TRANSACTIONS

During the year, the Group had connected transactions set out in notes 27, 28, 29, 37, 39 and 42 to the financial statement, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules. The independent non-executive directors have reviewed the connected transactions with the related parties. In their opinion, these transactions entered into by the Group were:

(i) in the ordinary and usual course of business of the Group; and

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from independent third parties;

Other than those transactions described in notes 27, 28, 29, 37, 39 and 42 to the financial statements, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	28%
— five largest suppliers combined	59%

Sales

— the largest customer	68%
— five largest customers combined	80%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

DIRECTORS' INTEREST IN COMPETING INTEREST

None of the directors or the substantial shareholders (as defined in the Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

Since the Company is in the process of identifying suitable candidate to fill the vacancy for the Chairman after the resignation of Mr. Yiu Ching On on 12 July 2010, the Company did not comply with A.2.1 under the Code on Corporate Governance Practices. During the transitional period, the directors of the Company have assumed and shared all the duties and responsibilities of being the Chairman of the Company.

Other than the above mentioned non-compliance, none of the directors of the Company is aware of information that would reasonable indicated that the Company is not, or was not throughout the accounting period, in compliance with the Code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. As confirmed by all directors after specific enquiry, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed that the Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considered all of the independent non-executive directors to be independent throughout the year.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely, Mr. Wong Chun Hung, Mr. Cheung Cho Yiu and Mr. Liang Jin An. Two meetings were held during the current financial year. The Audit Committee had reviewed the audited results of the Group for the year ended 31 December 2010.

AUDITORS

There has been no changes of auditors in the past three years. The financial statements for the years ended 31 December 2009 and 2010 were audited by Ascenda Cachet CPA Limited. A resolution for the reappointment of Ascenda Cachet CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yiu Kwok Ming, Tommy
Vice-Chairman

Hong Kong, 31 March 2011

Ascenda CACHET
天健德揚

13F Neich Tower
128 Gloucester Road
Wanchai
Hong Kong

To the shareholders of **Bao Yuan Holdings Limited (formerly Ching Hing (Holdings) Limited)**
(Incorporated in the Bermuda with limited liability)

We have audited the financial statements of Bao Yuan Holdings Limited (the "Company", together with its subsidiaries, the "Group") set out on pages 23 to 101, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Yuk Tong
Practising Certificate Number P03723

Hong Kong
31 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Notes	2010 $'000	2009 $'000 (Restated)
Continuing operations			
Revenue	4	**198,062**	220,320
Cost of sales		**(180,606)**	(194,218)
Gross profit		**17,456**	26,102
Other income	4	**28,934**	2,166
Fair value (loss)/gain on investment properties		**(760)**	827
Distribution costs		**(12,847)**	(12,196)
Administrative expenses		**(26,432)**	(15,948)
Other operating expenses	6	**(4,723)**	(4,926)
Finance costs	8	**(78,090)**	(3,366)
Loss before tax	7	**(76,462)**	(7,341)
Income tax expense	11	**(585)**	(540)
Loss for the year from continuing operations		**(77,047)**	(7,881)
Discontinued operation			
Loss for the year from discontinued operation	13	**(995)**	(4,081)
Loss for the year		**(78,042)**	(11,962)
Loss for the year attributable to:			
Owners of the Company	12	**(78,056)**	(13,099)
Non-controlling interests		**14**	1,137
		(78,042)	(11,962)
Loss per share attributable to ordinary equity holders of the Company	14		
Basic			
— For loss for the year		**($3.85)**	($6.81)
— For loss from continuing operations		**($3.80)**	($4.69)
Diluted			
— For loss for the year		**($3.85)**	($6.81)
— For loss from continuing operations		**($3.80)**	($4.69)

The accompanying notes on pages 30 to 101 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	2010	2009
	$'000	*$'000*
Loss for the year	**(78,042)**	(11,962)
Other comprehensive income		
Exchange differences on translation of foreign operations	**2,463**	340
Other comprehensive income for the year, net of tax	**2,463**	340
Total comprehensive income for the year, net of tax	**(75,579)**	(11,622)
Total comprehensive income for the year attributable to:		
Owners of the Company	**(75,617)**	(12,759)
Non-controlling interests	**38**	1,137
	(75,579)	(11,622)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010
(Expressed in Hong Kong dollars)

	Notes	2010 $'000	2009 $'000
Non-current assets			
Property, plant and equipment	15	**885**	2,370
Investment properties	16	**—**	58,720
Exploration and evaluation assets	18	**1,698,481**	—
Available-for-sale financial investment	19	**590**	590
		1,699,956	61,680
Current assets			
Trade and bills receivables	20	**1,436**	14,780
Other receivables, prepayments and deposits	21	**1,886**	1,357
Equity investments at fair value through profit or loss	22	**2,989**	—
Pledged bank deposits	23	**1,873**	15,866
Cash and cash equivalents	23	**136,777**	27,531
		144,961	59,534
Assets classified as held for sale	13	**—**	11,383
		144,961	70,917
Current liabilities			
Bank overdrafts, secured	24	**1,033**	4,199
Interest-bearing bank borrowings, secured	24	**—**	14,588
Trust receipt loans, secured	24	**441**	6,738
Trade and bills payables	25	**6,805**	19,440
Other payables and accruals	26	**28,700**	11,169
Due to directors	27	**—**	4,200
Due to a shareholder	28	**—**	6,013
Due to a related company	29	**—**	779
Finance lease payables	30	**—**	281
Tax payable	11	**1,268**	3,176
		38,247	70,583
Net current assets		**106,714**	334
Total assets less current liabilities		**1,806,670**	62,014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010
(Expressed in Hong Kong dollars)

	Notes	2010 $'000	2009 $'000
Non-current liabilities			
Due to a related company	29	—	7,698
Finance lease payables	30	—	382
Convertible bonds	31	**532,107**	—
		532,107	8,080
Net assets		**1,274,563**	53,934
Equity			
Equity attributable to owners of the Company			
Issued capital	32	**4,902**	19,217
Equity component of convertible bonds	33(a)	**210,741**	—
Reserves	33(a)	**1,056,383**	29,949
		1,272,026	49,166
Non-controlling interests		**2,537**	4,768
Total equity		**1,274,563**	53,934

Wong Man Pan
Director

Yiu Kwok Ming, Tommy
Director

The accompanying notes on pages 30 to 101 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Attributable to owners of the Company												
	Share capital $'000 (Note 32)	Share premium# $'000 (Note 33(a))	Contributed surplus# $'000 (Note 33(a))	Property revaluation reserves# $'000	Statutory surplus reserve# $'000 (Note 33(a))	Employee share option reserves# $'000	Capital reserves# $'000 (Note 33(a))	Equity component of con-vertible bonds $'000	Exchange reserves# $'000	Acc-umulated losses# $'000	Total $'000	Non-controlling interests $'000	Total Equity $'000
At 1 January 2009	19,217	71,148	–	35,275	7,611	791	52,694	–	11,327	(137,083)	60,980	3,631	64,611
Total comprehensive income for the year	–	–	–	–	–	–	–	–	340	(13,099)	(12,759)	1,137	(11,622)
Equity-settled share option arrangements	–	–	–	–	–	945	–	–	–	–	945	–	945
At 1 January 2010	19,217	71,148	–	35,275	7,611	1,736	52,694	–	11,667	(150,182)	49,166	4,768	53,934
Total comprehensive income for the year	–	–	–	–	–	–	–	–	2,439	(78,056)	(75,617)	38	(75,579)
Issue of convertible bonds	–	–	–	–	–	–	–	515,501	–	–	515,501	–	515,501
Issue of shares upon conversion of convertible bonds	187,091	649,837	–	–	–	–	–	(252,596)	–	–	584,332	–	584,332
Redemption of convertible bonds	–	–	–	–	–	–	–	(52,164)	–	–	(52,164)	–	(52,164)
Issue of shares upon exercise of share options	80	96	–	–	–	(64)	–	–	–	–	112	–	112
Share options lapsed	–	–	–	–	–	(128)	–	–	–	128	–	–	–
Issue of shares through placement	20,668	24,875	–	–	–	–	–	–	–	–	45,543	–	45,543
Capital reduction	(226,512)	–	226,512	–	–	–	–	–	–	–	–	–	–
Issue of rights shares	4,358	213,530	–	–	–	–	–	–	–	–	217,888	–	217,888
Disposal of investment properties	–	–	–	(539)	–	–	–	–	–	539	–	–	–
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	1,142	1,142
Disposal of subsidiaries	–	–	–	(34,736)	(7,611)	–	(52,715)	–	(13,644)	95,062	(13,644)	(7)	(13,651)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(3,404)	(3,404)
Equity-settled share option arrangements	–	–	–	–	–	909	–	–	–	–	909	–	909
At 31 December 2010	4,902	959,486	226,512	–	–	2,453	(21)	210,741	462	(132,509)	1,272,026	2,537	1,274,563

These reserve accounts comprise the consolidated reserves of HK$1,056,383,000 (2009: HK$29,949,000) in the consolidated statement of financial position.

The accompanying notes on pages 30 to 101 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Notes	2010 $'000	2009 $'000
Net cash flows (used in)/from operating activities	38 (a)	**(26,417)**	5,246
Cash flows from investing activities			
Interest received		**248**	292
Decrease in pledged bank deposits		**993**	3,661
Purchases of items of property, plant and equipment		**(769)**	(177)
Proceeds from disposal of items of property, plant and equipment		**20**	36
Proceeds from disposal of investment properties		**14,679**	—
Acquisition of subsidiaries	36	**553**	—
Disposal of subsidiaries	37	**44,958**	—
Effect on foreign exchange rate		**1,680**	—
Net cash inflow from investing activities		**62,362**	3,812
Cash flows from financing activities			
Bank loans raise		**—**	12,273
Repayment of bank loans		**(14,588)**	(9,462)
Repayment of finance lease obligation		**(44)**	(308)
Repayment to a related company		**(646)**	(733)
Increase in amounts due to directors		**16,369**	3,000
Decrease in amount due to shareholder		**(6,013)**	—
Dividends paid to non-controlling interests		**(3,404)**	—
Proceeds from issues of shares		**45,543**	—
Proceeds from rights issue		**217,888**	—
Proceeds from exercise of share options		**112**	—
Redemption of convertible bonds		**(170,000)**	—
Interest paid upon redemption of convertible bonds		**(2,465)**	—
Net cash inflow from financing activities		**82,752**	4,770
Net increase in cash and cash equivalents		**118,697**	13,828
Cash and cash equivalents at beginning of year		**16,594**	2,763
Effect of foreign exchange rate changes		**12**	3
Cash and cash equivalents at end of year		**135,303**	16,594
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**135,217**	18,171
Non-pledged time deposits		**1,560**	9,360
Cash and cash equivalents as stated in the consolidated statement of financial position		**136,777**	27,531
Bank overdrafts, secured		**(1,033)**	(4,199)
Trust receipt loans repayable within three months		**(441)**	(6,738)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**135,303**	16,594

The accompanying notes on pages 30 to 101 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010
(Expressed in Hong Kong dollars)

	Notes	2010 $'000	2009 $'000
Non-current assets			
Property, plant and equipment	15	**471**	—
Interests in subsidiaries	17	**1,700,703**	54,908
		1,701,174	54,908
Current assets			
Other receivables, prepayments and deposits	21	**813**	153
Cash and cash equivalents	23	**117,187**	155
		118,000	308
Current liabilities			
Other payables and accruals	26	**3,894**	453
Due to directors	27	**—**	1,200
		3,894	1,653
Net current assets/(liabilities)		**114,106**	(1,345)
Total assets less current liabilities		**1,815,280**	53,563
Non-current liabilities			
Convertible bonds	31	**532,107**	—
		532,107	—
Net assets		**1,283,173**	53,563
Equity			
Issued capital	32	**4,902**	19,217
Equity component of convertible bonds	33b	**210,741**	—
Reserves	33b	**1,067,530**	34,346
Total equity		**1,283,173**	53,563

Wong Man Pan
Director

Yiu Kwok Ming, Tommy
Director

The accompanying notes on pages 30 to 101 form part of these financial statements.

1. CORPORATE INFORMATION

Bao Yuan Holdings Limited (formerly Ching Hing (Holdings) Limited) (the "Company") is a limited liability company incorporated in Bermuda and its registered office is located at Cannon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The Company's principal place of business in Hong Kong is located at 25th Floor, Overseas Trust Bank Building, 160 Gloucester Road, Wanchai, Hong Kong.

The Company and its subsidiaries (collectively, the "Group") were principally engaged in the sales of fabrics and sales of garments and other related accessories in Hong Kong, the United States and the Peoples' Republic of China (the "PRC") during the year. The Group discontinued the provision of fabric processing services in prior year.

During the year, the Group had entered into an agreement with independent third parties for the acquisition of a mining group which was approved by the shareholders of the Company in the special general meeting held on 17 March 2010. Upon the completion of the acquisition of the mining group, the Group had diversified its principal activities and engaged in iron and titanium exploration, development and mining in the PRC through the acquired subsidiaries.

During the year, the Group had diversified its principal activities and engaged in securities investment.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity investments at fair value through profit or loss, which have been measured at fair value. Assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 13. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION *(CONTINUED)*

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intragroup transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interest (formerly known as minority interest), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net assets value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

(Expressed in Hong Kong dollars unless otherwise stated)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 — Share-based Payment — Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKFRS 5 Amendments Include in improvements to HKFRSs Issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK Interpretation 5	Presentation of Financial Statements — Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), and amendment to HKAS 7 included in improvements to HKFRSs 2009, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(CONTINUED)*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) Business Combinations and HKAS27 (Revised) Consolidated and Separate Financial Statements

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control in accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will give rise to gain or loss. Furthermore, the revised standard changes the accounting losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interest in Joint Ventures.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interest after 1 January 2010.

(b) Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of key amendments most applicable to the Group are as follows:

HKAS 7 Statement of Cash Flows: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

(Expressed in Hong Kong dollars unless otherwise stated)

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new and revised HKFRSs, that have been issued but are not yet effective in these financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets[4]
HKFRS 9	Financial Instruments[5]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation — Classification of Rights Issues[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity who's financial and operating policies of the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Business combination and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquire and the equity interests issued by the Group in exchange for control of the acquire. 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. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit of loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquire over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combination and goodwill *(continued)*

Business combinations from 1 January 2010 *(continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by the assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operating within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operating when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect the previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquire were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to contingent consideration were recognised against as part of goodwill.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, investment properties, assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group and its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situation where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Buildings	5%
Furniture, fixtures and office equipment	20%
Motor vehicles	30%
Leasehold improvements	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at end of each reporting period.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investment properties *(continued)*

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal group and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation assets are transferred to either mining rights or property, plant and equipment and are amortised or depreciated based on the accounting policy as stated in either "mining rights" or "property, plant and equipment", respectively. Amortisation or depreciation is not charged on costs in respect of areas of interest in the development phase until production. Amortisation or depreciation will be charged over the mine's estimated useful lives using the units of production method calculated on the basis of proven and probable reserves. If any project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, trade and bills receivables, other receivables, available-for-sale financial investment and equity investments at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial investments whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments *(continued)*

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the statements of income.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgment. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Derecognition of financial assets

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include bank overdrafts, interest-bearing bank borrowings, trust receipts loans, trade and bills payables, other payables and accruals, amount due to a shareholder, amount due to a related company, amounts due to directors, finance lease payable and convertible bonds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities *(continued)*

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Fair value of financial instruments

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

— from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

— from the provision of fabric processing services is recognised on the completion of the process which general coincides with the time when goods are delivered to customers;

— rental income, on a time proportion basis over the lease terms;

— interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

— securities trading, when the significant risks and rewards of ownership have been transferred to the buyer.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Other employee benefits

Pension schemes

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

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 5% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes option pricing model, further details of which are given in note 34 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Other employee benefits *(continued)*

Share-based payment transactions *(continued)*

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Foreign currencies

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

All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies *(continued)*

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgments

The preparation of the Group's financial statements requires management to make the following judgment, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Assessment of impairment of non-current assets

The Group tests annually whether non-current assets have suffered any impairment based on their value in use or their net selling price.

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Estimated fair value of financial assets

The estimation of fair value of financial assets required the Group to estimate the future market value expected to be recovered from the disposal of the financial assets and a suitable discount rate in order to calculate the present value.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of sales of fabrics, garments and other related accessories, after allowances for returns and trade discounts, income from provision of fabric processing services, and amounts received and receivable from the gains/losses on sales of equity investments at fair value through profit or loss. During the year, the Group did not generate any income from mining business.

An analysis of revenue, other income and gains is as follows:

	2010 $'000	2009 $'000
Revenue		
Sales of fabrics	**56,643**	60,792
Sales of garments and accessories	**140,948**	159,528
Gain on sales of equity investments at fair value through profit or loss	**471**	—
Attributable to continuing operations reported in the consolidated income statement	**198,062**	220,320
Income from fabric processing services provided attributable to a discontinued operation *(Note 13)*	**—**	—
	198,062	220,320
Other income and gains		
Continuing operations		
Interest income	**248**	292
Rental income	**913**	—
Write back of impairment losses on trade and bills receivables	**919**	1,389
Commission income	**1,474**	117
Gain on disposal of investment properties	**6,926**	—
Gain on disposal of property, plant and equipment	**20**	—
Gain on disposal of subsidiaries	**17,654**	—
Scrap sales	**718**	—
Others	**62**	368
	28,934	2,166
Total revenue, income and gains	**226,996**	222,486

5. OPERATING SEGMENT INFORMATION

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

Continuing operations

(a) the sales of fabrics segment is trading of the fabrics;

(b) the sales of garments and accessories segment is trading of garments and other related accessories;

(c) the mining segment is exploration, development and mining of iron and titanium ores; and

(d) the securities segment is trading of securities.

Discontinued operation in prior year

(e) the fabric processing segment was the provision of fabric processing services.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment result, which is a measure of adjusted loss before tax from operations. The adjusted loss before tax from operations is measured consistently with the Group's loss before tax from operations except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude the amounts due to directors, a related company and a shareholder, tax payables and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

5. OPERATING SEGMENT INFORMATION *(CONTINUED)*

	Year ended 31 December 2010						
	Continuing operations					Discontinued operation	
	Sales of fabrics *$'000*	Sales of garments and accessories *$'000*	Mining *$'000*	Securities *$'000*	Sub-total *$'000*	Fabric processing *$'000*	Total *$'000*
Segment revenue							
Sales to external customers	56,643	140,948	–	471	198,062	–	198,062
Segment results	(3,691)	3,140	(1,533)	(1,481)	(3,565)	(995)	(4,560)
Reconciliation:							
Interest income and unallocated gains					17,693	–	17,693
Corporate and other unallocated expenses					(15,207)	–	(15,207)
Finance costs					(75,383)	–	(75,383)
Loss before tax					(76,462)	(995)	(77,457)
Segment assets	1,638	15,399	1,702,677	4,600	1,724,314	–	1,724,314
Reconciliation:							
Unallocated assets					120,603	–	120,603
Total assets					1,844,917	–	1,844,917
Segment liabilities	2,378	9,429	4	3	11,814	–	11,814
Reconciliation:							
Unallocated liabilities					558,540	–	558,540
Total liabilities					570,354	–	570,354
Other segment information							
Capital expenditure	239	19	7	–	265	–	265
Reconciliation:							
Unallocated capital expenditure					511	–	511
					776	–	776
Depreciation and amortisation	528	299	2	–	829	–	829
Reconciliation:							
Unallocated depreciation and amortisation					49	–	49
					878	–	878
Impairment loss recognised:							
Trade and bills receivables	213	56	–	–	269	–	269
Other receivables	36	–	–	–	36	–	36
Deposit paid	265	–	–	–	265	–	265
Write back of impairment loss on trade and bills receivables	(551)	(368)	–	–	(919)	–	(919)
Write off of trade and bills receivables	534	–	–	–	534	–	534

5. OPERATING SEGMENT INFORMATION *(CONTINUED)*

	Year ended 31 December 2009				
	Continuing operations			Discontinued operation	
	Sales of fabrics $'000	Sales of garments and accessories $'000	Sub-total $'000	Fabric processing $'000	Total $'000
Segment revenue					
Sales to external customers	60,792	159,528	220,320	—	220,320
Segment results	(4,237)	6,068	1,831	(4,081)	(2,250)
Reconciliation:					
Interest income and unallocated gains			828	—	828
Corporate and other unallocated expenses			(8,233)	—	(8,233)
Finance costs			(1,767)	—	(1,767)
Loss before tax			(7,341)	(4,081)	(11,422)
Segment assets	33,336	28,478	61,814	11,383	73,197
Reconciliation:					
Unallocated assets			59,400	—	59,400
Total assets			121,214	11,383	132,597
Segment liabilities	40,292	15,430	55,722	—	55,722
Reconciliation:					
Unallocated liabilities			22,941	—	22,941
Total liabilities			78,663	—	78,663
Other segment information					
Capital expenditure	44	133	177	—	177
Depreciation and amortisation	816	406	1,222	—	1,222
Reconciliation:					
Unallocated depreciation and amortisation			9	—	9
			1,231	—	1,231
Impairment loss recognised:					
Trade and bills receivables	471	—	471	—	471
Other receivables	10	—	10	—	10
Write back of impairment loss of trade and bills receivables	(1,389)	—	(1,389)	—	(1,389)
Write off of trade and bills receivable	567	—	567	—	567

5. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Geographical information

	For the year ended 31 December 2010				
	Hong Kong *$'000*	**United States** *$'000*	**The PRC** *$'000*	**Others** *$'000*	**Total** *$'000*
Revenue					
Sales to external customers	**47,289**	**135,132**	**7,273**	**8,368**	**198,062**
Revenue from discontinued operation	**—**	**—**	**—**	**—**	**—**
Revenue from continuing operations	**47,289**	**135,132**	**7,273**	**8,368**	**198,062**
Segment assets	**140,943**	**1,124**	**1,702,678**	**172**	**1,844,917**
Capital expenditure	**769**	**—**	**7**	**—**	**776**

	For the year ended 31 December 2009				
	Hong Kong *$'000*	United States *$'000*	The PRC *$'000*	Others *$'000*	Total *$'000*
Revenue					
Sales to external customers	51,179	154,976	4,841	9,324	220,320
Revenue from discontinued operation	—	—	—	—	—
Revenue from continuing operations	51,179	154,976	4,841	9,324	220,320
Segment assets	58,508	838	73,066	185	132,597
Capital expenditure	169	—	8	—	177

Information about a major customer

Revenue from continuing operations of approximately HK$135,104,000 (2009: HK$147,335,000) was derived from the sales of garments and accessories segment to a single customer.

6. OTHER OPERATING EXPENSES

	Continuing operations		Discontinued operation *(Note 13)*	
	2010 **$'000**	2009 $'000	**2010** **$'000**	2009 $'000
Impairment of trade and bills receivables	**269**	471	**—**	—
Impairment of deposit paid	**265**	—	**—**	—
Impairment of other receivables	**36**	10	**—**	—
Write off of trade and bills receivables	**534**	567	**—**	—
Incidental cost on proposed investments	**—**	2,544	**—**	—
Fair value loss on equity investment through profit or loss	**1,911**	—	**—**	—
Write off of plant and machinery	**45**	—	**—**	—
Share-based payment	**909**	945	**—**	—
Exchange losses	**714**	335	**—**	—
Others	**40**	54	**—**	—
	4,723	4,926	**—**	—

7. LOSS BEFORE TAX

Loss before tax is stated after charging/(crediting):

	2010 $'000	2009 $'000
Auditors' remuneration	**400**	310
Cost of inventories sold:		
Continuing operations	**180,606**	194,218
Discontinued operation	**—**	—
	180,606	194,218
Depreciation	**878**	1,231
Fair value loss/(gains) on investment properties	**760**	(827)
Impairment of trade and bills receivables	**269**	471
Impairment of other receivables and deposit	**301**	10
Write off of trade and bills receivables	**534**	567
Minimum lease payments under operating leases — land and buildings	**1,365**	877
Staff costs (excluding directors' remuneration):		
Salaries and allowances	**14,168**	13,621
Retirement benefit costs	**289**	314
Equity settled share option expenses	**234**	15
	14,691	13,950
Gross rental income less outgoings	**(913)**	—
Gain on disposal of investment properties	**(6,926)**	—
Gain on disposal of property, plant and equipment	**(20)**	—
Gain on disposal of subsidiaries	**(17,654)**	—
Write back of impairment losses on trade and bills receivables	**(919)**	(1,389)

The board of directors of the Company does not recommend the payment of any dividends for the year ended 31 December 2010 (2009: Nil).

8. FINANCE COSTS

	Continuing operations	
	2010 $'000	2009 $'000
Bank charges	**1,048**	1,112
Interest on bank loans and overdraft	**352**	490
Interest on other loans	**1,260**	1,708
Finance lease charges	**66**	56
Interest on convertible bonds	**75,364**	—
	78,090	3,366

9. RETIREMENT BENEFIT COSTS

The Group contributes to defined contribution retirement schemes (including the Occupational Retirement Scheme ("ORSO Scheme") and Mandatory Provident Fund Scheme ("MPF Scheme")) which are available to all full time employees in Hong Kong and employees who are registered residents of Nantou Town, Zhongshan City, Guangdong Province and Xian, Shaanxi Province, the PRC. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries.

The Group's contributions to the ORSO Scheme available to certain Hong Kong employees are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

For the MPF Scheme, the Group and its Hong Kong employees each make monthly contribution at 5% of the employee's relevant income, with the maximum contribution by each of the Group and the employees limited to $1,000 per month, as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance. Such contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

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

	Group	
	2010	2009
	$'000	*$'000*
Fees	**159**	144
Other emoluments:		
Salaries, allowances and benefits in kind	**3,227**	3,456
Equity-settled share option expenses	**675**	930
Retirement benefit costs	**99**	114
	4,001	4,500
	4,160	4,644

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(CONTINUED)*

(a) The emoluments paid or payable to each of directors of the Company during the year are as follows:

For the year ended 31 December 2010

Name of directors	Fees $'000	Salary allowances and benefit in kind $'000	Retirement benefit costs $'000	Equity-settled share option expenses $'000	Total $'000
Executive directors					
Mr. Yiu Kwok Ming, Tommy	—	1,161	42	422	1,625
Mr. Chan Yiu Fai (appointed on 12/7/2010)	—	159	6	—	165
Mr. Yim Hin Keung (appointed on 10/8/2010)	—	117	5	—	122
Mr. Wong Man Pan (appointed on 6/10/2010)	—	67	3	—	70
Mr. Wong Wai Man (resigned on 31/12/2010)	—	830	12	21	863
Mr. Leung Kwok Ip (resigned on 10/8/2010)	—	381	7	17	405
Mr. Yiu Ching On (resigned on 12/7/2010)	—	512	24	215	751
	—	3,227	99	675	4,001
Independent non-executive directors					
Mr. Cheung Cho Yiu	48	—	—	—	48
Mr. Liang Jin An	48	—	—	—	48
Mr. Wong Chun Hung (appointed on 2/7/2010)	35	—	—	—	35
Mr. Chan Kin Wah, Billy (resigned on 2/7/2010)	28	—	—	—	28
	159	—	—	—	159
Total	159	3,227	99	675	4,160

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(CONTINUED)*

(a) The emoluments paid or payable to each of directors of the Company during the year are as follows *(continued)***:**

For the year ended 31 December 2009

Name of directors	Fees *$'000*	Salary allowances and benefit in kind *$'000*	Retirement benefit costs *$'000*	Equity-settled share option expenses *$'000*	Total *$'000*
Executive directors					
Mr. Yiu Ching On	—	1,040	48	433	1,521
Mr. Yiu Kwok Ming, Tommy	—	910	42	433	1,385
Mr. Leung Kwok Ip	—	676	12	32	720
Mr. Wong Wai Man	—	830	12	32	874
	—	3,456	114	930	4,500
Independent non-executive directors					
Mr. Cheung Cho Yiu	48	—	—	—	48
Mr. Chan Kin Wah, Billy	48	—	—	—	48
Mr. Liang Jin An	48	—	—	—	48
	144	—	—	—	144
Total	144	3,456	114	930	4,644

During the year, there were no other emoluments payable to the independent non-executive directors (2009: Nil).

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2009: Nil). There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(CONTINUED)*

(b) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group included one (2009: four) executive director and three former executive directors. Details of the remuneration of the remaining one (2009: one) highest paid employee and two former executive directors during the year are as follows:

	2010 $'000	2009 $'000
Salaries and allowances	**1,327**	626
Retirement benefit costs	**38**	12
Equity-settled share option expenses	**212**	—
	1,577	638

The remuneration of the above employees and former directors fell within the following band:

	2010 Number	2009 Number
$Nil — $1,000,000	**3**	1

Notes

(1) Mr. Yiu Ching On and Mr. Leung Kwok Ip, two of the three former executive directors during the year ended 31 December 2010 referred to above, resigned in July and August 2010, respectively. Their emoluments before the respective dates of resignation as directors were included as directors' remuneration for the year ended 31 December 2010. Their emoluments from the respective dates of resignation to 31 December 2010 were included as staff costs.

(2) Mr. Wong Wai Man, one of the three former executive directors during the year ended 31 December 2010 referred to above, resigned on 31 December 2010. His entire emolument was included as directors' remuneration for the year ended 31 December 2010.

11. INCOME TAX

The amount of tax charge to the consolidated income statement represents:

	Continuing operations		Discontinued operation (Note 13)	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Current tax — Hong Kong				
Provision for the year	**306**	515	**—**	—
Current tax — Overseas				
Provision for the year	**279**	25	**—**	—
	585	540	**—**	—

11. INCOME TAX *(CONTINUED)*

(i) Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

(ii) Tax on overseas profits is calculated on the estimated assessable profits for the year at the rates of tax prevailing in the countries in which the Group operates.

(iii) Under the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the corporate income tax rate applicable to domestic companies was 25%.

As certain of the Company's subsidiaries are established and operated in Zhongshan City, Guangdong Province, the PRC and Xian, Shaanxi Province, the PRC, these subsidiaries are subject to the standardised tax rate of 25% on their taxable income.

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

	Continuing operations		**Discontinued operation** *(Note 13)*	
	2010 **$'000**	2009 $'000	**2010** **$'000**	2009 $'000
Loss before tax	**(76,462)**	(7,341)	**(995)**	(4,081)
Tax credit calculated at the statutory tax rate	**(12,838)**	(1,287)	**(249)**	(1,020)
Tax effect of expenses not deductible	**1,544**	987	**249**	1,020
Tax effect of income not taxable	**(8,658)**	(237)	**—**	—
Tax effect of temporary difference on depreciable assets not recognised	**39**	122	**—**	—
Utilisation of previously unrecognised tax losses	**(78)**	(83)	**—**	—
Tax loss not recognised	**20,576**	1,038	**—**	—
Tax charge at the Group's effective tax rate	**585**	540	**—**	—

12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

Loss attributable to owners of the Company included a loss of $82,511,000 (2009: $7,958,000) which has been dealt with in the financial statements of the Company.

13. DISCONTINUED OPERATION AND ASSETS CLASSIFIED AS HELD FOR SALE

On 4 August 2008, the Company announced the decision of its board of directors to terminate the operation of Zhongshan Ching Hing Weaving Factory Limited ("Zhongshan Ching Hing"). Zhongshan Ching Hing engaged in sale of fabric and fabric processing where the fabric processing was a separate operating segment and is part of the Mainland China and Hong Kong operations. In 2008, The Group decided to cease its fabric processing business and accordingly, the fabric processing operation was reclassified as a discontinued operation since then.

On 2 September 2010, the Group entered into a sale and purchase agreement with Cotton Row Limited to dispose of Zhongshan Ching Hing together with several subsidiaries of the Group, which were principally engaged in the business of sale of fabrics and/or garments in the PRC and Hong Kong, at a consideration of HK$45.8 million. Further details of the disposal transaction was set out in a circular of the Company dated 28 September 2010 and the disposal transaction was approved by the shareholders of the Company in a special general meeting on 15 October 2010. The disposal transaction was completed on 29 October 2010. Impairment loss of assets classified as held for sale of HK$995,000 (2009: HK$4,081,000) is included in consolidated income statement.

The results of the fabric processing operation for the year are presented below:

	2010	2009
	$'000	*$'000*
		(Restated)
Impairment loss of assets classified as held for sale	**(995)**	(4,081)
Income tax expense	**—**	—
Loss for the year from the discontinued operation	**(995)**	(4,081)
Loss per share:		
Basic, from the discontinued operation	**($0.05)**	($2.12)
Diluted, from the discontinued operation	**($0.05)**	($2.12)

The calculation of basic loss per share amount from discontinued operation is based on the loss for the year from discontinued operation attributable to owners of the Company, and the weighted average number of 20,262,000 (2009: 1,922,000 as adjusted) ordinary shares in issue during the year, as adjusted to reflect the share sub-division, share consolidation and rights issue during the year, and share consolidation subsequent to the end of the reporting period.

The calculation of diluted loss per share amount is based on the loss for the year from discontinued operation 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.

13. DISCONTINUED OPERATION AND ASSETS CLASSIFIED AS HELD FOR SALE *(CONTINUED)*

No adjustment has been made to the basic loss per share amount from the discontinued operation presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the impact of share options and convertible bonds outstanding had an anti-dilutive effect on basic loss per share amounts presented.

The calculations of basic and diluted loss per share from the discontinued operation are based on:

	2010 $'000	2009 $'000
Loss from the discontinued operation attributable to ordinary equity holders of the Company	**995**	4,081

	Number of shares	
	2010 '000	2009 '000 (Restated)
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**20,262**	1,922

The major classes of assets of Zhongshan Ching Hing classified as assets classified as held for sale as at 31 December are as follows:

	2010 $'000	2009 $'000
Plant and equipment:		
Carrying amount at 1 January	**11,383**	15,444
Impairment loss	**(995)**	(4,081)
Exchange realignment	**223**	20
Disposal of subsidiaries	**(10,611)**	—
Carrying amount at 31 December	**—**	11,383

There was no cash inflow/outflow from assets classified as held for sale.

14. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amounts from continuing operations and discontinued operation is based on the loss for the year from continuing operations and discontinued operation attributable to owners of the Company, respectively, and the weighted average number of 20,262,000 (2009: 1,922,000 as adjusted) ordinary shares in issue during the year, as adjusted to reflect the share sub-division, share consolidation and rights issue during the year, and share consolidation subsequent to the end of the reporting period.

The calculation of diluted loss per share amounts from continuing operations and discontinued operation is based on the loss for the year from continuing operations and discontinued operation attributable to owners of the Company, respectively. 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.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the impact of share options and convertible bonds outstanding had an anti-dilutive effect on basic loss per share amounts presented.

The calculations of basic loss per share are based on:

	2010	2009
	$'000	*$'000*
		(Restated)
Loss attributable to owners of the Company, used in the basic loss per share calculation:		
From continuing operations	**(77,061)**	(9,018)
From discontinued operation	**(995)**	(4,081)
Loss attributable to owners of the Company	**(78,056)**	(13,099)
Attributable to:		
Continuing operations	**($3.80)**	($4.69)
Discontinued operation	**($0.05)**	($2.12)
	($3.85)	($6.81)

	Number of shares	
	2010	2009
	'000	*'000*
		(Restated)
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**20,262**	1,922

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings in Hong Kong $'000	Leasehold improvements $'000	Furniture, fixtures and office equipment $'000	Motor vehicles $'000	Total $'000
31 December 2010					
At 31 December 2009 and at 1 January 2010:					
Cost	454	1,727	4,238	3,779	10,198
Accumulated depreciation	(162)	(847)	(3,908)	(2,911)	(7,828)
Net carrying amount	292	880	330	868	2,370
At 1 January 2010, net of accumulated depreciation	292	880	330	868	2,370
Additions	—	265	266	238	769
Acquisition of subsidiaries	—	—	7	—	7
Write off	—	—	(45)	—	(45)
Disposal of subsidiaries	(283)	(807)	(34)	(214)	(1,338)
Depreciation charge during the year	(9)	(86)	(121)	(662)	(878)
At 31 December 2010, net of accumulated depreciation	—	252	403	230	885
At 31 December 2010:					
Cost	—	393	1,166	1,067	2,626
Accumulated depreciation	—	(141)	(763)	(837)	(1,741)
Net carrying amount	—	252	403	230	885

15. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Group

	Buildings in Hong Kong $'000	Leasehold improve-ments $'000	Furniture, fixtures and office equipment $'000	Motor vehicles $'000	Total $'000
31 December 2009					
At 31 December 2008 and at 1 January 2009:					
Cost	454	1,727	4,107	3,780	10,068
Accumulated depreciation	(153)	(763)	(3,797)	(1,895)	(6,608)
Net carrying amount	301	964	310	1,885	3,460
At 1 January 2009, net of accumulated depreciation	301	964	310	1,885	3,460
Additions	—	—	141	—	141
Depreciation provided during the year	(9)	(84)	(121)	(1,017)	(1,231)
At 31 December 2009, net of accumulated depreciation	292	880	330	868	2,370
At 31 December 2009:					
Cost	454	1,727	4,238	3,780	10,199
Accumulated depreciation	(162)	(847)	(3,908)	(2,912)	(7,829)
Net carrying amount	292	880	330	868	2,370

The Group's buildings were situated in Hong Kong and held under medium term leases.

At 31 December 2009, the net book value of property, plant and equipment held by the Group under finance lease amounted to $394,000.

15. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Company

	Leasehold improve-ments *$'000*	**Furniture, fixtures and office equipment** *$'000*	**Total** *$'000*
31 December 2010			
Additions	266	245	511
Depreciation provided during the year	(15)	(25)	(40)
At 31 December 2010, net of accumulated depreciation	251	220	471
At 31 December 2010:			
Cost	266	245	511
Accumulated depreciation	(15)	(25)	(40)
Net carrying amount	251	220	471

16. INVESTMENT PROPERTIES

	Group	
	2010 *$'000*	2009 *$'000*
Carrying amount at 1 January	**58,720**	57,802
Disposals	**(7,753)**	—
Net (loss)/gain from fair value adjustment	**(760)**	827
Exchange realignment	**1,080**	91
Disposal of subsidiaries	**(51,287)**	—
Carrying amount at 31 December	**—**	58,720

16. INVESTMENT PROPERTIES *(CONTINUED)*

The Group's investment properties were situated outside Hong Kong and were held under the following lease terms:

	2010 **$'000**	2009 $'000
Long term leases	—	7,700
Medium term leases	—	51,020
	—	58,720

The Group's investment properties were revalued on 31 December 2009 by Asset Appraisal Limited, independent professionally qualified valuators, at $58,720,000 on an open market, existing use basis.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010 **$'000**	2009 $'000
Unlisted shares, at cost	**1,680,000**	126,626
Less: Impairment	—	(106,000)
	1,680,000	20,626
Due from subsidiaries	**20,703**	72,291
Less: Impairment	—	(38,000)
	20,703	34,291
Due to a subsidiary	—	(9)
	1,700,703	54,908

(Expressed in Hong Kong dollars unless otherwise stated)

17. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

The amounts due from subsidiaries are unsecured, interest-free and in substance represent the Company's investments in subsidiaries in the form of quasi-equity loans.

The amount due to the subsidiary was unsecured, interest-free and no fixed terms of repayment.

Particulars of the subsidiaries at 31 December 2010 were as follows:

Name	Country/place of incorporation/ establishment	Principal activities and place of operations	Paid up capital	Interests held
Held directly:				
Target Rich Investment Limited	The British Virgin Islands	Investment holding in Hong Kong	US$1	100%
Greater China Mining Resources Limited	The British Virgin Islands	Investment holding in Hong Kong	US$100	100%
Excel Growth Investments Limited	The British Virgin Islands	Investment holding in Hong Kong	US$1	100%
Victory Chain Investment Limited	The British Virgin Islands	Securities Investment in Hong Kong	US$1	100%
Held indirectly:				
South Field (Pacific) Limited	Hong Kong	Sale of garments and accessories	$1,000,101	58% (2009: 56%)
Glamour International Limited	Samoa	Investment holding	US$3	100%
Alpha Textile International Limited	Hong Kong	Sale of fabrics	$10,000	65%
Ching Hing (Holdings) Investment Limited	Hong Kong	Investment holding	$10,000	100%
Calvin Textiles Limited	Hong Kong	Merchandising services	$10,000	100%
Mark Joy International Limited	Hong Kong	Investment holding in the PRC	$10	58% (2009: 56%)
Shenzhen Jun Di Fashion Design Company Limited*#^	The PRC	Dormant	$8,350,000	58% (2009: 56%)
Greater China Mining Resources Limited	Hong Kong	Investment holding in the PRC	$1	100%
Billion Trade International Enterprise Limited	Hong Kong	Dormant	$1	100%
Shaanxi Tai Sheng Da Mining Company Limited*#@	The PRC	Dormant	RMB21,000,000	95%

* Ascenda Cachet CPA Limited were not the statutory auditors.

\# The English names of these subsidiaries are directly translated from their Chinese names as no English names have been registered.

^ This subsidiary is registered as a wholly-foreign-owned enterprise under the PRC Law.

@ This subsidiary is registered as sino-foreign investment enterprise under the PRC Law.

18. EXPLORATION AND EVALUATION ASSETS

	Group	
	2010	2009
	$'000	*$'000*
At 1 January 2010, at cost	**—**	—
Additions through acquisition of subsidiaries *(Note 36)*	**1,698,102**	—
Exchange realignment	**379**	—
At 31 December 2010	**1,698,481**	—

The Group, through the newly acquired subsidiaries, has obtained a mining licence expiring on 22 September 2014 for 陝西省紫陽縣桃園 — 大柞木溝鈦磁鐵礦 (the "Mine", literally translated as Shaanxi Province Ziyang Country Taoyuan — Dazuomugou Taicitie Mine), an iron and titanium dioxide mine with a total mining area of 7.8892 km^2 located at Ziyang County, Shaanxi Province, the PRC. However, the Group has to obtain other licences to commence/continue the operations on the Mine.

19. AVAILABLE-FOR-SALE FINANCIAL INVESTMENT

	Group	
	2010	2009
	$'000	*$'000*
Club membership	**590**	590

20. TRADE AND BILLS RECEIVABLES

	Group	
	2010	2009
	$'000	*$'000*
Trade and bills receivables	**2,190**	21,039
Impairment	**(754)**	(6,259)
	1,436	14,780

Sale of fabrics is with credit terms of 45 days whereas trading of garments and accessories are with credit terms of 120 days. The Group has a defined credit policy and it varies with the financial strength of individual customers. Trading of garments and accessories are mostly covered by letter of credits. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

20. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

Details of the aging analysis of trade and bills receivables, based on the invoice date and net of provision, are as follows:

	Group	
	2010	2009
	$'000	*$'000*
Current	**1,319**	7,317
31-60 days	**31**	5,039
61-90 days	**14**	767
Over 90 days	**72**	1,657
	1,436	14,780

The movements in provision for impairment of trade and bills receivables are as follows:

	Group	
	2010	2009
	$'000	*$'000*
At 1 January	**6,259**	7,177
Impairment losses recognised	**269**	471
Impairment losses written back	**(919)**	(1,389)
Written off of trade and bills receivables	**(1,096)**	—
Disposal of subsidiaries	**(3,759)**	—
At 31 December	**754**	6,259

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of approximately $752,000 (2009: $6,025,000) with a carrying amount before provision of approximately $752,000 (2009: $6,025,000).

20. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

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

	Group	
	2010	2009
	$'000	*$'000*
Neither past due nor impaired	**1,303**	11,641
Less than 1 month past due	**23**	897
1 to 3 months past due	**22**	787
Over 3 months past due	**88**	1,455
	1,436	14,780

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

Receivables 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, and the directors have performed an assessment, the directors of the Company are of the opinion that no provision for impairment 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 or other credit enhancements over these balances.

21. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2010	2009	**2010**	2009
	$'000	*$'000*	***$'000***	*$'000*
Other receivables	**2,034**	1,476	**146**	72
Impairment	**(1,328)**	(1,288)	**—**	—
	706	188	**146**	72
Prepayments and deposits	**1,180**	1,169	**667**	81
	1,886	1,357	**813**	153

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2010	2009
	$'000	*$'000*
Listed equity investments, at market value:		
Hong Kong	**2,989**	—

The equity investments at 31 December 2010 were classified as held for trading and classified as financial assets as at fair value through profit or loss.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2010	2009	**2010**	2009
	Note	***$'000***	*$'000*	***$'000***	*$'000*
Cash and bank balances		**135,217**	18,171	**117,187**	155
Time deposits		**3,433**	25,226	**—**	—
		138,650	43,397	**117,187**	155
Less: Pledged time deposits for banking facilities	*39*	**(1,873)**	(15,866)	**—**	—
Cash and cash equivalents		**136,777**	27,531	**117,187**	155

At 31 December 2010, approximately $3,854,000 (2009: $1,571,000) of the Group's cash and bank balances was denominated in Renminbi and kept in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

24. BANK BORROWINGS (SECURED)

	Group	
	2010	2009
	$'000	*$'000*
Bank overdrafts, secured	**1,033**	4,199
Interest-bearing bank borrowings, secured	**—**	14,588
Trust receipt loans, secured	**441**	6,738
Total bank borrowings — repayable within one year	**1,474**	25,525

Bank borrowings bore annual interest ranging from 3.25% to 7.25%.

24. BANK BORROWINGS (SECURED) *(CONTINUED)*

The carrying amounts of the Group's borrowings are denominated in the following currencies:

As at 31 December 2010	**Hong Kong dollar** *$'000*	**United States dollar** *$'000*	**Total** *$'000*
Bank overdrafts, secured	**1,033**	**—**	**1,033**
Trust receipt loans, secured	**441**	**—**	**441**
	1,474	**—**	**1,474**

As at 31 December 2009	Hong Kong dollar *$'000*	United States dollar *$'000*	Total *$'000*
Bank overdrafts, secured	4,199	—	4,199
Interest-bearing bank borrowings, secured	12,354	2,234	14,588
Trust receipt loans, secured	108	6,630	6,738
	16,661	8,864	25,525

25. TRADE AND BILLS PAYABLES

Details of the aging analysis of trade and bills payables, based on the invoice date, are as follows:

	Group	
	2010 *$'000*	2009 *$'000*
Current	**966**	7,179
31-60 days	**3**	2,257
61-90 days	**—**	1,065
Over 90 days	**5,836**	8,939
	6,805	19,440

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	**2010**	2009
	$'000	*$'000*	***$'000***	*$'000*
Other payables	**24,708**	771	**30**	—
Accruals	**3,992**	10,398	**3,864**	453
	28,700	11,169	**3,894**	453

Other payables are unsecured, interest-free and have an average terms of three months, except for an amount of HK$22,794,000 has no fixed terms of repayment.

27. DUE TO DIRECTORS

		Group		Company	
	Interest rate	**2010** ***$'000***	2009 *$'000*	**2010** ***$'000***	2009 *$'000*
Directors:					
Mr. Yiu Ching On (resigned on 12 July 2010)	Nil	**—**	1,000	**—**	1,000
Mr. Yiu Kwok Ming, Tommy					
— Interest-free	Nil	**—**	1,200	**—**	200
— Interest-bearing	1% over Hong Kong prime rate	**—**	2,000	**—**	—
		—	4,200	**—**	1,200

There are no amounts due to the directors as at 31 December 2010.

The amounts due to the directors in the consolidated statement of financial position at 31 December 2009 were unsecured and had no fixed terms of repayment, of which HK$2,200,000 was interest-free and HK$2,000,000 bore interest at 1% over Hong Kong Prime rate.

The amounts due to the directors in the Company's statement of financial position at 31 December 2009 were unsecured and interest-free and had no fixed terms of repayment.

28. DUE TO A SHAREHOLDER

There is no amount due to a shareholder, Ms. Wong Kai Chun, at 31 December 2010.

The amount due to the shareholder was unsecured and interest bearing at 4.75% per annum and had no fixed terms of repayment at 31 December 2009.

29. DUE TO A RELATED COMPANY

	Group	
	2010 **$'000**	2009 $'000
Amount due to a related company repayable:		
Within one year	—	779
In the second year	—	827
In the third to fifth years inclusive	—	2,798
Beyond five years	—	4,073
	—	8,477
Less: Current portion	—	(779)
Amount due for settlement after 12 months	—	7,698

At 31 December 2009, the amount due to Handsome Development Limited, a company beneficially owned by Mr. Yiu Ching On, a former director of the Company was unsecured, bore interest at 1% over Hong Kong prime rate and was repayable by 120 monthly instalments commencing on 18 August 2008.

The amount due to a related company was derecognised upon the disposal of subsidiaries during the year.

30. FINANCE LEASE PAYABLES

At 31 December 2010, the total future minimum lease payments under finance lease and their present values were as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2010 **$'000**	2009 $'000	**2010** **$'000**	2009 $'000
Amounts payable under finance lease:				
Within one year	—	334	—	281
In the second year	—	323	—	270
In the third to fifth years inclusive	—	136	—	112
Total minimum finance lease payments	—	793	—	663
Less: Future finance charges	—	(130)		
Present value of lease obligations	—	663		
Less: Amount due for settlement within 12 months (shown under current liabilities)	—	(281)		
Amount due for settlement after 12 months	—	382		

The Group leased certain of its motor vehicles under finance lease. The average lease term was 2 years. All leases were on a fixed repayment basis and no arrangements had been entered into for contingent rental payments.

31. CONVERTIBLE BONDS

On 30 March 2010, the Company issued 2% convertible bonds with an aggregate nominal value of HK$1,680,000,000. The bonds are convertible into ordinary shares on or before the third anniversary from the issue date of the convertible bonds at the initial conversion price of HK$0.22 per share, subject to adjustment for personal dilutive events. The bonds carry interest at a rate of 2% per annum, which is payable annually in arrears on 30 March. Up to 31 December 2010, the convertible bonds with nominal value of HK$823,200,000 have been converted; at a conversion price of HK$0.22 and HK$0.044 (as adjusted), into 850,000,000 and 14,459,090,908 ordinary shares, respectively, of HK0.01 each. The Company has early redeemed part of convertible bonds of HK$170,000,000 before the maturity date. The outstanding principal amounts of the convertible bonds as at 31 December 2010 was HK$686,800,000.

The convertible bonds issued during the year have been split as to the liability and equity components, as follows:

	2010 **$'000**	2009 $'000
Nominal value of convertible bonds issued during the year	**1,680,000**	—
Equity component	**(515,501)**	—
Liability component at the issuance date	**1,164,499**	—
Conversion into shares during the year	**(587,455)**	—
Redemption during the year	**(117,836)**	—
Interest expense	**75,364**	—
Interest paid upon redemption	**(2,465)**	—
Liability component at 31 December	**532,107**	—

32. SHARE CAPITAL

	Authorised ordinary shares	
	No. of shares	*$'000*
At 1 January 2009 and 31 December 2009	5,000,000,000	250,000
Increase in authorised capital *(note a)*	25,000,000,000	1,250,000
At 3 May 2010 before share subdivision	30,000,000,000	1,500,000
Share subdivision on 4 May 2010 *(note b)*	120,000,000,000	—
At 31 December 2010	150,000,000,000	1,500,000

	Issued and fully paid ordinary shares	
	No. of shares	*$'000*
At 1 January 2009 and 31 December 2009	384,349,468	19,217
Issue of share upon conversion of convertible bonds *(note c)*	850,000,000	42,500
At 3 May 2010 before share subdivision	1,234,349,468	61,717
Share subdivision on 4 May 2010 *(note b)*	4,937,397,872	—
Issue of shares upon exercise of share options *(note d)*	8,000,000	80
Issue of shares upon conversion of convertible bonds *(note e)*	14,459,090,908	144,591
Issue of new shares through placement *(note f)*	2,057,767,649	20,577
Share consolidation and capital reduction *(note g)*	(22,242,673,780)	(226,512)
Issue of new shares through placement *(note h)*	90,786,423	91
Issue of rights shares *(note i)*	4,357,748,320	4,358
At 31 December 2010	4,902,466,860	4,902

Movement during the year

(a) Pursuant to the ordinary resolution passed on 17 March 2010, the authorised share capital had been increased from HK$250,000,000 to HK$1,500,000,000 by the creation of an additional 25,000,000,000 shares of $0.05 each ranking pari passu in all respects with the existing shares of the Company.

(b) Pursuant to the ordinary resolution passed on 3 May 2010, the Company subdivided the issued and unissued shares of the Company into 5 new shares of HK$0.01 each for 1 existing share of HK$0.05 each on 4 May 2010.

(c) During the period from 30 March 2010 (date of issue of convertible bonds) to 3 May 2010 (date before the share subdivision), convertible bonds with nominal value of HK$187,000,000 were converted into 850,000,000 ordinary shares of HK$0.05 each at the conversion price of HK$0.22.

(d) On 14 May 2010, 8,000,000 ordinary shares of HK$0.01 each were issued to an employee of the Company upon the exercise of 8,000,000 shares options at the adjusted exercise price of HK$0.014 per share.

32. SHARE CAPITAL *(CONTINUED)*

Movement during the year *(continued)*

(e) During the period from 4 May 2010 (date of share subdivision) to 31 July 2010, convertible bonds with nominal value of HK$636,200,000 were converted into 14,459,090,908 ordinary shares of HK$0.01 each at the conversion price of HK$0.044.

(f) On 9 August 2010, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a fully underwritten basis, a total of 2,057,767,649 placing shares to not less than 6 independent placees at a price of HK$0.01 per placing share. The aggregate nominal value of the placing shares under the placing agreement will be approximately HK$20,577,000. The net proceeds from the placement of approximately HK$19.8 million will be used for general working capital of the Group.

(g) Pursuant to a special resolution passed on 1 September 2010, the Company would undertake capital reorganisation. Pursuant to the capital reorganisation, on 2 September 2010, every 50 issued and unissued shares of HK$0.01 each in the share capital of the Company was consolidated into 1 share of HK$0.5 each (the "Consolidated Share") and subsequent to the share consolidation, the par value of each Consolidated Share was reduced from HK$0.5 each to HK$0.001 each ("Capital Reduction"). Under the Capital Reduction, the issued share capital of the Company was reduced through a cancellation of the paid-up capital of the Company to the extent of HK$0.499 on each Consolidated Share, resulting in the reduction of issued share capital from HK$226,965,000 divided into 453,932,117 Consolidated Shares to HK$453,932 divided into 453,932,117 shares of HK$0.001 each.

(h) On 5 October 2010, the Company entered into another placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a fully underwritten basis, a total of 90,786,423 placing shares to not less than 6 independent placees at a price of HK$0.275 per placing share. The aggregate nominal value of the placing shares under the placing agreement will be approximately HK$91,000. The net proceeds from the placement of approximately HK$24.1 million will be used for general working capital of the Group.

(i) On 21 December 2010, the Company issued rights shares on the basis of eight rights shares for every one existing share held on 26 November 2010, at the subscription price of HK$0.05 per rights share with nominal value of HK$0.001 each.

Movement subsequent to the end of the reporting period

Subsequent to the end of the reporting period, on 24 January 2011, the Company entered into a placing agreement with a placing agent pursuant to which the placing agent has agreed to place, on a best effort basis, to not less than six independent placees for up to 980,000,000 new shares at a price of HK$0.0245 per placing share, for and on behalf of the Company. The net proceeds from the placement of approximately HK$23 million will be used for general working capital of the Group.

32. SHARE CAPITAL *(CONTINUED)*

Movement subsequent to the end of the reporting period *(continued)*

Subsequent to the end of the reporting period, pursuant to a special resolution passed on 7 March 2011, every 20 issued and unissued shares of HK$0.001 each in the share capital of the Company was consolidated into 1 consolidated share of HK$0.02 each. Upon the completion of the share consolidation on 8 March 2011, the number of issued share of the Company was reduced from 5,882,466,861 shares of HK$0.001 each to 294,123,343 shares of HK$0.02 each.

Subsequent to the end of the reporting period, on 22 March 2011, the Company entered into another placing agreement with a placing agent pursuant to which the placing agent has agreed to place, on a best effort basis, to not less than six independent placees for up to 58,000,000 new shares at a price of HK$0.25 per share, for and on behalf of the Company. The net proceeds from the placement of approximately HK$13.9 million will be used for general working capital of the Group.

33. RESERVES

(a) Group

(i) Share premium

The share premium account is available for distribution to shareholders under the Companies Act 1981 of Bermuda (as amended) and no distribution may be paid to shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

(ii) Statutory surplus reserve

In accordance with the PRC Companies Law, the Company's subsidiaries in the PRC were required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve (until such reserve reaches 50% of the registered capital of the respective companies). The statutory surplus reserve is non-distributable. According to the relevant PRC regulations, statutory surplus reserve can be used to make up losses or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

(iii) Capital reserves

Capital reserves represent the amount of a subsidiary's share capital converted into non-voting deferred shares in pursuant to the Group reorganisation in 1999 in preparation for the listing of the Company's shares on the Stock Exchange.

(iv) Contributed surplus

As stated in note 32(g), the credit amount arising from the Capital Reduction was transferred to the contributed surplus of the Company.

The contributed surplus of the Group and the Company at 31 December 2010 represents the credit amount arising from the Capital Reduction on 2 September 2010. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment, be unable to pay its liabilities as they become due; or (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

33. RESERVES *(CONTINUED)*

(b) Company

	Share premium $'000 (Note 33(a)(i))	Contributed surplus $'000	Employee share option reserves $'000	Equity component of convertible bonds $'000	Accumulated losses $'000	Total $'000
At 1 January 2009	71,148	123,754	791	—	(154,334)	41,359
Equity-settled share-options arrangements	—	—	945	—	—	945
Total comprehensive income for the year	—	—	—	—	(7,958)	(7,958)
At 31 December 2009	71,148	123,754	1,736	—	(162,292)	34,346
Issue of convertible bonds	—	—	—	515,501	—	515,501
Equity-settled share-options arrangements	—	—	909	—	—	909
Issue of shares upon conversion of convertible bonds	649,837	—	—	(252,596)	—	397,241
Redemption of convertible bonds	—	—	—	(52,164)	—	(52,164)
Issue of shares upon exercise of share options	96	—	(64)	—	—	32
Issue of shares through placement	24,875	—	—	—	—	24,875
Capital reduction	—	226,512	—	—	—	226,512
Issue of rights shares	213,530	—	—	—	—	213,530
Share options lapsed	—	—	(128)	—	128	—
Total comprehensive income for the year	—	—	—	—	(82,511)	(82,511)
At 31 December 2010	959,486	350,266	2,453	210,741	(244,675)	1,278,271

Contributed surplus

(a) As stated in note 32(g), included in the contributed surplus of the Company at 31 December 2010 is an amount of HK$226,512,000 (2009: Nil) representing the credit amount arising from the Capital Reduction on 2 September 2010.

(b) Included in the contributed surplus of the Company at 31 December 2010 and 2009 is an amount of HK$123,754,000 representing the difference between the underlying net assets of the subsidiaries acquired by the Company and the nominal value of the shares issued by the Company at the time of the Group reorganisation.

33. RESERVES *(CONTINUED)*

(b) Company *(continued)*

Contributed surplus *(continued)*

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment, be unable to pay its liabilities as they become due; or (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

34. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company has a share option scheme ("2002 Share Option Scheme") which was adopted on 27 May 2002. For the better development of the Group, it is important that the Group is able to recruit, retain and motivate high caliber and good quality employees and officers to serve the Group on a long term basis as well as to maintain good relationship with its suppliers, customers and professional advisers. The Group believes that having a share option scheme in place is one of the most attractive means to attract and retain those persons to contribute to the continuous development of the Group.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme but the Company may refresh the scheme mandate limit, by the approval of its shareholders in general meeting and the issue of a circular in accordance with the requirements of the Listing Rules, such that the total number of shares in respect of which options may be granted by the Directors under the 2002 Share Option Scheme and any other schemes of the Company shall not exceed 10% of the issued share capital of the Company at the date of approval to refresh such limit. Options previously granted under the 2002 Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised) will not be counted for the purpose of calculation limited as "refreshed". Notwithstanding the aforesaid in this paragraph, the maximum number of shares in respect of which options may be granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. As at 31 December 2010, the total number of shares available for issue under the 2002 Share Option Scheme was 27,675,851 (2009: 30,750,946) shares, which represented approximately 0.6% of the issued share capital of the Company at that day. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of the Company (Including exercised, cancelled and outstanding options) in any 12-month period up to the date of grant of the options, would not exceed 1% of the aggregate number of shares in issue unless the grant of such options is specifically approved by the shareholders of the Company in general meeting and a circular is issued in accordance with the requirements of the Listing Rules.

(Expressed in Hong Kong dollars unless otherwise stated)

34. SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

Equity-settled share option scheme of the Company *(continued)*

The subscription price will be determined by the Company's Board of Directors, and will be the highest of (i) the closing price of the ordinary shares as stated in daily quotation sheet issued by the Stock Exchange on the date of grant, which must be a trading day, (ii) the average closing price of the ordinary shares as stated in daily quotation sheet issued by the Stock Exchange for the five trading days immediately preceding the date of grant, and (iii) the nominal value of an ordinary share.

At 31 December 2010, a total of 15,555,600 (as adjusted) (2009: 22,084,000) share options were still outstanding under the 2002 Share Option Scheme as follows:

	Grant date	At 1 January 2010	Adjustment	Granted during the year	Exercise during the year	Reclassified during the year	Lapsed during the year	At 31 December 2010	Exercise Period	Exercise price per share $	Share price on the grant date $
Executive Directors											
Mr. Yiu Ching On	26.9.2006	3,200,000	(320,000)	–	–	(2,880,000)	–	–	30.11.2007-25.9.2016	0.078	0.07
	11.6.2008	3,842,000	(384,200)	–	–	(3,457,800)	–	–	11.6.2008-10.6.2018	0.556	0.50
Mr. Yiu Kwok Ming, Tommy	26.9.2006	3,200,000	(320,000)	–	–	–	–	2,880,000	30.11.2007-25.9.2016	0.078	0.07
	11.6.2008	3,842,000	(384,200)	–	–	–	–	3,457,800	11.6.2008-10.6.2018	0.556	0.50
Mr. Leung Kwok Ip	26.9.2006	3,200,000	(320,000)	–	–	(2,880,000)	–	–	30.11.2007-25.9.2016	0.078	0.07
Mr. Wong Wai Man	26.9.2006	3,200,000	(320,000)	–	–	(2,880,000)	–	–	30.11.2007-25.9.2016	0.078	0.07
Sub-total		20,484,000	(2,048,400)	–	–	(12,097,800)	–	6,337,800			
Other Eligible Employees	26.9.2006	1,600,000	(160,000)	–	(1,440,000)	8,640,000	(2,880,000)	5,760,000	30.11.2007-25.9.2016	0.078	0.07
	11.6.2008	–	–	–	–	3,457,800	–	3,457,800	11.6.2008-10.6.2018	0.556	0.50
		22,084,000	(2,208,400)	–	(1,440,000)	–	(2,880,000)	15,555,600			

(Expressed in Hong Kong dollars unless otherwise stated)

34. SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

Equity-settled share option scheme of the Company *(continued)*

Employee share option expenses related to the above grants of share option are charged to the consolidated income statement over the vesting period. Such expenses were determined by the Company based on the Black-Scholes valuation model with the following assumptions:

Date of grant	11 June 2008	26 September 2006
Value per option	$0.42	$0.04
Price per share at date of grant	$0.50	$0.07
Exercise price per share	$0.50	$0.07
Standard deviation	1.1971	0.7338
Annual risk-free interest rate	3.41%	3.69%
Life of options	5 years	10 years
Vesting period	4 years	4 years

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility (standard deviation) reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

At the end of the reporting period, the Company had 15,555,600 (as adjusted) share options outstanding under the 2002 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 15,555,600 additional ordinary shares of the Company and additional share capital of $15,556.

35. DEFERRED TAX

At 31 December 2010, the Group has tax losses of $101,380,000 (2009: $233,275,000) available to offset future profits. No deferred tax asset has been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the losses can be utilised. Such losses may be carried forward indefinitely. The effect of temporary differences on depreciable assets is not material.

36. ACQUISITION OF SUBSIDIARIES

On 30 March 2010, the Group acquired a 100% equity interest (the "Acquisition") in Greater China Mining Resources Limited ("Greater China", a limited liability company incorporated in the British Virgin Islands, together with its subsidiaries, collectively "Greater China Group") from independent third parties (the "Vendors"). Greater China Group is principally engaged in iron and titanium exploration, development and mining in the PRC through its subsidiary, Shaanxi Tai Sheng Da Mining Company Limited. The purchase consideration for the acquisition was satisfied by issuing convertible bonds with an aggregate nominal value of $1,680,000,000 payable to the Vendors at the acquisition date. The convertible bonds carry interest at 2% per annum and are convertible into shares at any time after the completion of the Acquisition up to, and including, the business day (excluding Saturday and Sunday) falling on the third anniversary from the issue date of the convertible bonds at the initial conversion price of $0.22 per share.

The Acquisition effectively represents an acquisition of assets by the Group. The fair values of the identifiable assets and liabilities at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** *$'000*
Property, plant and equipment	*15*	7
Exploration and evaluation assets	*18*	1,698,102
Cash and cash equivalents		553
Prepayments		5,158
Other receivables		130
Other payables		(22,808)
Net assets of Greater China Group		1,681,142
Non-controlling interests of Shaanxi Tai Sheng Da Mining Company Limited		(1,142)
Net assets of Greater China Group attributable to the owners of the Company		1,680,000
Satisfied by:		
Convertible bonds		1,680,000

36. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Greater China Group is as follows:

	$'000
Cash consideration	—
Cash and cash equivalents acquired	553
Net cash inflow of cash and cash equivalents included in cash flows from investing activities	553

Since its acquisition, Greater China Group had not contributed to the Group's turnover and contributed HK$1,613,000 to the consolidated loss for the year ended 31 December 2010.

Had the acquisition taken place at the beginning of the year, the revenue from continuing operations of the Group and the loss of the Group for the year would have been HK$198,062,000 and HK$78,448,000, respectively.

37. DISPOSAL OF SUBSIDIARIES

	2010 $'000	2009 $'000
Net assets disposed of:		
Property, plant and equipment	1,338	—
Investment properties	51,287	—
Trade receivables	10,045	—
Other receivables, deposits and prepayments	4,833	—
Pledged bank deposits	13,000	—
Cash and cash equivalents	4,057	—
Assets classified as held for sales	10,611	—
Amounts due to fellow subsidiaries	(56,269)	—
Bank overdrafts, secured	(804)	—
Trust receipt loans, secured	(2,449)	—
Trade payables	(17,039)	—
Other payables and accrued charges	(1,707)	—
Due to a director	(20,569)	—
Due to related company	(7,831)	—
Obligations under finance leases	(619)	—
Tax payable	(2,394)	—
Non-controlling interest	(7)	—
Net liabilities value	(14,517)	—
Sales loan	56,269	—
	41,752	—
Exchange reserves realised	(13,644)	—
	28,108	—
Gain on disposal of subsidiaries	17,654	—
	45,762	—
Satisfied by:		
Cash	45,762	—

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

	2010 $'000	2009 $'000
Cash consideration	45,762	—
Cash and cash equivalents disposed of	(4,057)	—
Bank overdrafts, secured disposed of	804	—
Trust receipt loans, secured disposed of	2,449	—
Net inflow of cash and cash equivalents in respect of disposed of subsidiaries	44,958	—

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of loss before tax to net cash flows from/(used in) operating activities

	2010 $'000	2009 $'000
Loss before tax		
— from continuing operations	**(76,462)**	(7,341)
— from discontinued operation	**(995)**	(4,081)
	(77,457)	(11,422)
Adjustment for:		
Depreciation	**878**	1,231
Interest income	**(248)**	(292)
Interest expenses	**1,612**	2,198
Finance lease charges	**66**	56
Interest on convertible bonds	**75,364**	—
Fair value loss/ (gain) on investment properties	**760**	(827)
Fair value loss on equity investments at fair value through profit or loss	**1,911**	—
Gain on disposal of property, plant and equipment	**(20)**	—
Written off of plant and machinery	**45**	—
Gain on disposal of investment properties	**(6,926)**	—
Gain on disposal of subsidiaries	**(17,654)**	—
Impairment on asset classified as held for sales	**995**	4,081
Share-based payment	**909**	945
	(19,765)	(4,030)
Decrease in trade and bills receivables, other receivable, prepayment and deposits	**3,224**	17,917
Decrease in trade and bills payable, other payables and accruals	**(2,289)**	(6,342)
Decrease in VAT and other tax payables	**—**	(52)
Increase in equity investment at fair value through profit or loss	**(4,900)**	—
Effect of foreign exchange rate changes	**(911)**	225
Net cash (used in)/from operations	**(24,641)**	7,718
PRC tax paid	**—**	—
Hong Kong profits tax paid	**(98)**	(218)
Interest paid	**(1,612)**	(2,198)
Finance lease charges paid	**(66)**	(56)
Net cash flows (used in)/from operating activities	**(26,417)**	5,246

(b) Major non-cash transaction

Save as transactions disclosed in notes 31, 36 and 37 to the financial statements, the Group has no other major non-cash transaction.

39. BANKING FACILITIES

At 31 December 2010, the Group's credit facilities amounting to HK$85,000,000 (2009: HK$128,760,000) granted by banks were secured by the following:

(a) guarantees given by the non-controlling shareholders of subsidiaries for HK$69,610,000 (2009: HK$83,712,000) and no guarantee given by the Company (2009: HK$111,898,000);

(b) charges over bank deposits of the Group (note 23);

(c) personal guarantees of HK$67,840,000 (2009: HK$12,000,000) given by a director of the Company; and

(d) personal guarantees of HK$23,000,000 (2009: HK$nil) given by a former director of the Company.

40. CONTINGENT LIABILITIES

There are no guarantee given by the Company as at 31 December 2010.

At 31 December 2009, the Company had given guarantees of approximately HK$111,898,000 to certain banks in respect of banking facilities granted to certain subsidiaries.

At 31 December 2009, counter-indemnities in favour of the Company at an aggregate amount of HK$23,350,000 were given by non-controlling shareholders of subsidiaries in respect of certain guarantees given by the Company for the Group's banking facilities.

41. COMMITMENTS

Operating lease commitments

As lessee

At 31 December 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2010	2009
	$'000	*$'000*
Within one year	**2,236**	—
In the second to fifth years inclusive	**4,360**	—
	6,596	—

42. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, during the year, the Group entered into the following material transactions with its related parties in the normal course of business:

	2010 *$'000*	2009 *$'000*
Rental paid to a related company *(note (i))*	**700**	840
Interest paid to a shareholder *(note (ii))*	**284**	284
Interest paid to a director *(note (iii))*	**80**	21
Interest paid to a related company *(note (iv))*	**409**	562
Management fee paid to a related company *(note (v))*	**220**	—

Notes:

i. Mr. Yiu Ching On, a former director of the Company, beneficially owns Gaport Limited, the related company. This transaction was conducted in accordance with the terms agreed between the Group and the related company.

ii. The shareholder is Ms. Wong Kai Chun, the spouse of Mr. Yiu Ching On, a former director of the Company (note 28).

iii. The director is Mr. Yiu Kwok Ming, Tommy (note 27).

iv. Mr. Yiu Ching On, a former director of the Company, beneficially owns the related company (note 29).

v. Mr. Yiu Kwok Ming, Tommy, an executive director of the Company, is a director of Ching Hing Weaving Dyeing and Printing Factory Limited, the related company. This transaction was conducted in accordance with the terms agreed between the Group and the related company.

(b) Members of key management during the year comprised only seven (2009: four) executive directors whose remuneration is set out in note 10a to the financial statements.

(c) The balances with related parties as at the end of reporting period are detailed in notes 27, 28 and 29 to the financial statements.

43. EVENTS AFTER THE REPORTING PERIOD

(a) On 24 January 2011, the Company entered into a placing agreement with Cheong Lee Securities Limited ("Cheong Lee") pursuant to which Cheong Lee has agreed to place, on a best effort basis, to not less than six independent placees for up to 980,000,000 new shares at a price of HK$0.0245 per share, for and on behalf of the Company. The net proceeds from the placing of approximately HK$23 million will be used for general working capital of the Group.

(b) On 9 February 2011, the Board proposed to implement the share consolidation on the basis that every 20 issued and unissued shares of HK$0.001 each would be consolidated into 1 consolidated share of HK$0.02 each in the issued share capital of the Company. Such share consolidation was approved by the shareholders at the special general meeting held on 7 March 2011. Upon the completion of the share consolidation on 8 March 2011, the number of issued shares was reduced from 5,882,466,861 shares of HK$0.001 each to 294,123,343 shares of HK$0.02 each.

(c) On 22 March 2011, the Company entered into a placing agreement with Pico Zeman Securities (HK) Limited ("Pico Zeman") pursuant to which Pico Zeman has agreed to place, on a best effort basis, to not less than six independent placees for up to 58,000,000 new shares at a price of HK$0.25 per share, for and on behalf of the Company. The net proceeds from the placing of approximately HK$13.9 million will be used for general working capital of the Group.

44. FINANCIAL INSTRUMENTS BY CATEGORY

Group

Financial assets

	Financial assets at fair value through profit or loss — held for trading		Available-for-sale financial investment		Loan and receivable		Total	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
Available-for-sale financial investment	**—**	—	**590**	590	**—**	—	**590**	590
Trade and bills receivables	**—**	—	**—**	—	**1,436**	14,780	**1,436**	14,780
Financial assets included in other receivables, prepayments and deposits	**—**	—	**—**	—	**1,886**	1,357	**1,886**	1,357
Equity investments at fair value through profit or loss	**2,989**	—	**—**	—	**—**	—	**2,989**	—
Pledged bank deposits	**—**	—	**—**	—	**1,873**	15,866	**1,873**	15,866
Cash and cash equivalents	**—**	—	**—**	—	**136,777**	27,531	**136,777**	27,531
	2,989	—	**590**	590	**141,972**	59,534	**145,551**	60,124

44. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

Group *(continued)*

Financial liabilities

	Financial liabilities at amortised cost	
	2010	2009
	$'000	*$'000*
Bank overdrafts, secured	**1,033**	4,199
Interest-bearing bank borrowings, secured	**—**	14,588
Trust receipt loans, secured	**441**	6,738
Trade and bills payables	**6,805**	19,440
Financial liabilities included in other payables and accruals	**28,700**	11,169
Due to directors	**—**	4,200
Due to a shareholder	**—**	6,013
Due to a related company	**—**	8,477
Finance lease payables	**—**	663
Convertible bonds	**532,107**	—
	569,086	75,487

Company

Financial assets

	Loan and receivable	
	2010	2009
	$'000	*$'000*
Financial assets included in other receivables, prepayments and deposits	**813**	153
Cash and cash equivalents	**117,187**	155
	118,000	308

Financial liabilities

	Financial liabilities at amortised cost	
	2010	2009
	$'000	*$'000*
Financial liabilities included in other payables and accruals	**3,894**	453
Due to directors	**—**	1,200
Convertible bonds	**532,107**	—
	536,001	1,653

45. FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value of financial instruments

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

— the fair value of financial assets and financial liabilities with standards terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask price respectively; and

— the fair value of other financial assets and 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 as inputs.

The directors consider that the carrying amounts of the Company's other financial asset and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

The carrying amounts and fair values of the Company's financial instruments are as follow:

Fair value hierarchy of financial instruments

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

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

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

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

45. FAIR VALUE AND FAIR VALUE HIERARCHY *(CONTINUED)*

Assets measured at fair value

Group

31 December 2010

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Equity investments at fair value through profit or loss	2,989	—	—	2,989
	2,989	—	—	2,989

The Group did not have any financial assets measured at fair value at 31 December 2009.

The Company did not have any financial assets measured at fair value at 31 December 2010 (2009: Nil).

Liabilities measured at fair value

The Group and the Company did not have any financial liabilities measured at fair value at 31 December 2010 (2009: Nil).

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's trust receipt loans with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points %	Increase/ (decrease) in profit before tax $'000	Increase/ (decrease) in equity* $'000
2010			
Hong Kong dollar	**1**	**15**	**—**
	(1)	**(15)**	**—**
2009			
Hong Kong dollar	1	(309)	—
	(1)	309	—

* *Excluding accumulated losses*

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in Renminbi (RMB), United States Dollars ("USD") and Hong Kong dollar ("HKD"). Approximately 76.3% (2009: 78.3%) of the Group's sales are denominated in currencies other than the functional currency of the operating units marking the sales, and almost 97.4% (2009: 89.7%) of costs are denominated in currencies other than the units' functional currency.

The Group does not have significant foreign currency risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in USD and HKD, of which the exchange rate of USD was quite stable during the years ended 31 December 2009 and 2010.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Sensitively at the end of reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's net profit (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) %	Increase/ (decrease) in profit before tax $'000
2010		
If Hong Kong dollar weakens against RMB	**5.0**	**1,150**
If Hong Kong dollar strengthens against RMB	**(5.0)**	**(1,150)**
If Hong Kong dollar weakens against USD	**5.0**	**(214)**
If Hong Kong dollar strengthens against USD	**(5.0)**	**214**
2009		
If Hong Kong dollar weakens against RMB	5.0	98
If Hong Kong dollar strengthens against RMB	(5.0)	(98)
If Hong Kong dollar weakens against USD	5.0	(444)
If Hong Kong dollar strengthens against USD	(5.0)	444

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale investment and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Liquidity risk

The maturity profile of the Group's financial liabilities as at the end of reporting period, based on the contracted undiscounted payments, was as follows:

	On demand or no fixed terms of repayment *$'000*	Less than 3 months *$'000*	3 to less than 12 months *$'000*	1 to 5 years *$'000*	Over 5 years *$'000*	Total *$'000*
2010						
Bank overdrafts, secured	**1,033**	**—**	**—**	**—**	**—**	**1,033**
Trust receipt loans, secured	**—**	**441**	**—**	**—**	**—**	**441**
Trade and bills payables	**—**	**6,805**	**—**	**—**	**—**	**6,805**
Other payables and accruals	**22,794**	**5,906**	**—**	**—**	**—**	**28,700**
Convertible bonds	**—**	**10,642**	**—**	**521,465**	**—**	**532,107**
	23,827	**23,794**	**—**	**521,465**	**—**	**569,086**
2009						
Bank overdrafts, secured	4,199	—	—	—	—	4,199
Interest-bearing bank borrowings, secured	—	14,588	—	—	—	14,588
Trust receipt loans, secured	—	6,738	—	—	—	6,738
Trade and bills payables	—	19,440	—	—	—	19,440
Other payables and accruals	—	11,169	—	—	—	11,169
Due to directors	4,200	—	—	—	—	4,200
Due to a shareholder	6,013	—	—	—	—	6,013
Due to a related company	—	190	589	3,625	4,073	8,477
Finance lease payables	—	72	209	382	—	663
	14,412	52,197	798	4,007	4,073	75,487

Capital management

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

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes bank overdrafts, interest-bearing bank borrowings, trust receipt loans, trade and bills payables, other payables and accruals, due to directors, due to a shareholder, due to a related company, and finance lease payables and convertible bond, less pledged bank deposits and cash and cash equivalents. Capital includes equity attributable to owners of the Company and liability component of convertible bonds.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Capital management *(continued)*

	Group	
	2010	2009
	$'000	*$'000*
The gearing ratios as at the end of reporting periods were as follows:		
Bank overdrafts, secured	**1,033**	4,199
Interest-bearing bank borrowings, secured	**—**	14,588
Trust receipt loans, secured	**441**	6,738
Trade and bills payables	**6,805**	19,440
Other payables and accruals	**28,700**	11,169
Due to directors	**—**	4,200
Due to a shareholder	**—**	6,013
Due to a related company	**—**	8,477
Finance lease payables	**—**	663
Less:		
Pledged bank deposits	**(1,873)**	(15,866)
Cash and cash equivalents	**(136,777)**	(27,531)
Net (asset)/debt	**(101,671)**	32,090
Liability comprising of convertible bonds	**532,107**	—
Equity attributable to owners of the Company	**1,272,026**	49,166
Total capital	**1,804,133**	49,166
Capital and net debt	**1,702,462**	81,256
Gearing ratio	**N/A**	39%

47. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2011.

OTHER FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. The income statement amounts for each year in the five year financial summary have been re-presented as if the operation discontinued during the previous year had been discontinued at the beginning of the prior years.

	2010	2009	2008	2007	2006
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
				Restated	Restated
RESULTS					
Continuing operations					
Revenue	**198,062**	220,320	287,021	257,532	211,569
(Loss)/profit before tax	**(76,462)**	(7,341)	(24,862)	7,118	8,780
Income tax expense	**(585)**	(540)	(2,135)	(1,230)	(245)
(Loss)/profit for the year from continuing operations	**(77,047)**	(7,881)	(26,997)	5,888	8,535
Discontinued operation					
Loss for the year from discontinued operation	**(995)**	(4,081)	(16,315)	(12,758)	(6,921)
(Loss)/profit for the year	**(78,042)**	(11,962)	(43,312)	(6,870)	1,614
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**1,844,917**	132,597	149,468	204,514	169,716
Total liabilities	**(570,354)**	(78,663)	(84,857)	(116,093)	(98,724)
Non-controlling interests	**2,537**	(4,768)	(3,631)	(2,781)	(494)