



寶源控股有限公司  
Bao Yuan Holdings Limited

(Incorporated in Bermuda with limited liability)  
(Stock code: 692)



**2011**  
Interim Report

## REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION



13F Neich Tower  
128 Gloucester Road  
Wanchai  
Hong Kong

To the board of directors of Bao Yuan Holdings Limited  
(Incorporated in Bermuda with limited liability)

### Introduction

We have reviewed the interim condensed consolidated financial statements of Bao Yuan Holdings Limited and its subsidiaries (collectively, the "Group") set out on pages 2 to 25, which comprise the condensed consolidated statement of financial position as at 30 June 2011 and the related condensed consolidated income statement and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKSA 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Ascenda Cachet CPA Limited**  
*Certified Public Accountants*

**Chan Yuk Tong**  
*Practising Certificate Number P03723*

Hong Kong  
26 August 2011

**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the six months ended 30 June 2011

	Notes	Six months ended 30 June	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Continuing operations			
Revenue	3	<b>19,725</b>	143,976
Cost of sales		<b>(17,817)</b>	(131,161)
Gross profit		<b>1,908</b>	12,815
Other income	3	<b>588</b>	8,814
Fair value loss on investment properties		<b>—</b>	(657)
Distribution costs		<b>(2,757)</b>	(7,319)
Administrative expenses		<b>(8,338)</b>	(7,522)
Other operating expenses		<b>(303)</b>	(1,858)
Finance costs		<b>(33,975)</b>	(40,501)
Loss before tax	5	<b>(42,877)</b>	(36,228)
Income tax expense	6	<b>—</b>	(649)
Loss for the period from continuing operations		<b>(42,877)</b>	(36,877)
Discontinued operation			
Loss for the period from discontinued operation	7	<b>—</b>	(991)
Loss for the period		<b>(42,877)</b>	(37,868)
Attributable to:			
Owners of the Company		<b>(40,757)</b>	(39,283)
Non-controlling interests		<b>(2,120)</b>	1,415
		<b>(42,877)</b>	(37,868)
Loss per share attributable to ordinary equity holders of the Company	9		
Basic			
— For loss for the period		<b>(0.6 cent)</b>	(3.9 cents)
— For loss from continuing operations		<b>(0.6 cent)</b>	(3.8 cents)
Diluted			
— For loss for the period		<b>(0.6 cent)</b>	(3.9 cents)
— For loss from continuing operations		<b>(0.6 cent)</b>	(3.8 cents)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	<b>Six months ended 30 June</b>	
	<b>2011</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2010 <i>HK\$'000</i> (Unaudited)
Loss for the period	<b>(42,877)</b>	(37,868)
Other comprehensive income:		
Exchange difference on translation of foreign operations	<b>566</b>	756
Total comprehensive income for the period, net of tax	<b>(42,311)</b>	(37,112)
Total comprehensive income attributable to:		
Owners of the Company	<b>(40,355)</b>	(38,527)
Non-controlling interests	<b>(1,956)</b>	1,415
	<b>(42,311)</b>	(37,112)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 30 June 2011

	Notes	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment		<b>873</b>	885
Exploration and evaluation assets	10	<b>1,698,816</b>	1,698,481
Available-for-sale financial investment		<b>590</b>	590
		<b>1,700,279</b>	1,699,956
<b>Current assets</b>			
Trade and bills receivables	11	<b>746</b>	1,436
Other receivables, prepayments and deposits		<b>8,640</b>	1,886
Equity investments at fair value through profit or loss		<b>3,620</b>	2,989
Pledged bank deposits		<b>2,869</b>	1,873
Cash and bank balances		<b>55,155</b>	136,777
		<b>71,030</b>	144,961
<b>Current liabilities</b>			
Bank overdrafts, secured		<b>1,149</b>	1,033
Trust receipt loans, secured		<b>356</b>	441
Trade and bills payables	12	<b>848</b>	6,805
Other payables and accruals		<b>26,435</b>	28,700
Due to a related company		<b>83</b>	—
Tax payable		<b>1,268</b>	1,268
		<b>30,139</b>	38,247
Net current assets		<b>40,891</b>	106,714
Total assets less current liabilities		<b>1,741,170</b>	1,806,670

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (Continued)

As at 30 June 2011

	Notes	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Non-current liability			
Convertible bonds	13	<b>496,960</b>	532,107
		<b>496,960</b>	532,107
Net assets		<b>1,244,210</b>	1,274,563
Equity			
Equity attributable to owners of the Company			
Issued capital	14	<b>7,042</b>	4,902
Equity component of convertible bonds	13	<b>186,194</b>	210,741
Reserves		<b>1,050,393</b>	1,056,383
		<b>1,243,629</b>	1,272,026
Non-controlling interests		<b>581</b>	2,537
Total equity		<b>1,244,210</b>	1,274,563

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2011

	Attributable to owners of the Company												
	Share capital	Share premium	Contributed surplus	Property revaluation reserves	Statutory surplus reserves	Employee share option reserves	Capital reserves	Equity component of convertible bonds	Exchange reserves	Accumulated losses	Total	Non-controlling interests	Total equity
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
<b>At 1 January 2010</b>	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 period	—	—	—	—	—	—	—	—	756	(39,283)	(38,527)	1,415	(37,112)
Issue of convertible bonds	—	—	—	—	—	—	—	515,501	—	—	515,501	—	515,501
Issue of shares upon conversion of convertible bonds	110,727	381,702	—	—	—	—	—	(149,495)	—	—	342,934	—	342,934
Issue of shares upon exercise of equity settled share option	80	32	—	—	—	—	—	—	—	—	112	—	112
Disposal of investment properties	—	—	—	(539)	—	—	—	—	—	539	—	—	—
Non-controlling interest in relation to acquisition of subsidiary	—	—	—	—	—	—	—	—	—	—	—	1,142	1,142
Equity settled share option arrangements	—	—	—	—	—	472	—	—	—	—	472	—	472
<b>At 30 June 2010</b>	130,024	452,082	—	34,736	7,611	2,208	52,694	366,006	12,423	(188,926)	869,658	7,325	876,983
<b>At 1 January 2011</b>	<b>4,902</b>	<b>959,486</b>	<b>226,512</b>	—	—	<b>2,453</b>	<b>(21)</b>	<b>210,741</b>	<b>462</b>	<b>(132,509)</b>	<b>1,272,026</b>	<b>2,537</b>	<b>1,274,563</b>
Total comprehensive income for the period	—	—	—	—	—	—	—	—	402	(40,757)	(40,355)	(1,956)	(42,311)
Redemption of convertible bonds	—	—	—	—	—	—	—	(24,547)	—	—	(24,547)	—	(24,547)
Issue of shares through placement	2,140	34,365	—	—	—	—	—	—	—	—	36,505	—	36,505
<b>At 30 June 2011</b>	<b>7,042</b>	<b>993,851</b>	<b>226,512</b>	—	—	<b>2,453</b>	<b>(21)</b>	<b>186,194</b>	<b>864</b>	<b>(173,266)</b>	<b>1,243,629</b>	<b>581</b>	<b>1,244,210</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	<b>Six months ended 30 June</b>	
	<b>2011 HK\$'000 (Unaudited)</b>	<b>2010 HK\$'000 (Unaudited)</b>
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(33,871)</b>	3,046
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(2,953)</b>	15,592
<b>Net cash outflow from financing activities</b>	<b>(44,763)</b>	(7,501)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(81,587)</b>	11,137
<b>Cash and cash equivalents at the beginning of the period</b>	<b>135,303</b>	16,594
<b>Effect of foreign exchange rate changes</b>	<b>(66)</b>	13
<b>Cash and cash equivalents at the end of the period</b>	<b>53,650</b>	27,744
<b>Analysis of balances of cash and cash equivalents:</b>		
<b>Cash and bank balances</b>	<b>55,155</b>	38,261
<b>Bank overdrafts, secured</b>	<b>(1,149)</b>	(1,909)
<b>Trust receipt loans repayable within three months</b>	<b>(356)</b>	(8,608)
	<b>53,650</b>	27,744



## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Corporate information

Bao Yuan 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, garments and other related accessories in Hong Kong, the United States and the Peoples' Republic of China (the "PRC"), iron and titanium exploration, development and mining in the PRC, and securities investment during the period.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2011 ("the Unaudited Condensed Consolidated Interim Financial Statements") have been approved for issue by the Board of Directors on 26 August 2011.

### 2.1 Basis of preparation and significant accounting policies

The Unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the Unaudited Condensed Consolidated Interim 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").

The Unaudited Condensed Consolidated Interim Financial Statements should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2010 (the "2010 Annual Financial Statements") which were prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA.

These interim results are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

## 2.2 Changes in accounting policies and disclosures

Other than the adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Interpretations as noted below, the accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2010.

### ***New and revised HKFRSs***

The Group has adopted the following new and revised HKFRSs for the first time for the current period's interim report. The adoption of these new and revised HKFRSs did not have any significant effect on the financial position or performance of the Group.

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
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation — Classification of Rights Issues
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayment of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

## 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs that have been issued but not yet effective for the year ending 31 December 2011, in these financial statements.

HKFRS 7 Amendment	Amendments to HKFRS 7 Financial Instruments: Disclosures — Transfers to Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 10	Consolidated Financial Statements <sup>3</sup>
HKFRS 11	Joint Arrangements <sup>3</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>3</sup>
HKFRS 13	Fair Value Measurement <sup>3</sup>
HKAS 12 Amendments	Amendments to HKAS 12 Income Taxes: Recovery of Underlying Assets <sup>2</sup>
HKAS 19 (2011)	Employee Benefits <sup>3</sup>
HKAS 27 (2011)	Separate Financial Statements <sup>3</sup>
HKAS 28 (2011)	Investments in Associates and Joint Ventures <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> 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 the adoption of these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

**3. 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 period, the Group did not generate any income from mining business.

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

	<b>Six months ended 30 June</b>	
	<b>2011</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2010 <i>HK\$'000</i> (Unaudited)
Revenue		
Sales of fabrics	<b>1,618</b>	28,534
Sales of garments and accessories	<b>19,283</b>	115,442
Loss on sales of equity investments at fair value through profit or loss	<b>(1,176)</b>	—
	<b>19,725</b>	143,976
Attributable to continuing operations reported in condensed consolidated income statement	<b>19,725</b>	143,976
Income from fabric processing services provided attributable to a discontinued operation	—	—
	<b>19,725</b>	143,976
Other income and gains		
Continuing operations		
Commission income	<b>224</b>	892
Write back of impairment loss of trade and bills receivables	<b>56</b>	409
Interest income	<b>17</b>	33
Gain on disposal of property, plant and equipment	<b>255</b>	20
Gain on disposal of investment properties	—	6,899
Others	<b>36</b>	561
	<b>588</b>	8,814
Discontinued operation	—	—
	<b>588</b>	8,814
<b>Total revenue, other income and gains</b>	<b>20,313</b>	152,790

#### 4. 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**

Sales of fabrics segment — trading of fabrics

Sales of garments and accessories segment — trading of garments and other related accessories

Mine exploitation segment — mine exploitation, development and mining of iron and titanium ores

Securities segment — trading of securities

##### **Discontinued operation in prior year**

Fabric processing segment — provision of fabric processing services (disposed of during the year ended 31 December 2010)

	Continuing operations				Total HK\$'000 (Unaudited)
	Sales of fabrics HK\$'000 (Unaudited)	Sales of garments and accessories HK\$'000 (Unaudited)	Mine exploitation HK\$'000 (Unaudited)	Securities HK\$'000 (Unaudited)	
Six months ended 30 June 2011					
<b>Segment revenue</b>					
Sales to external customers	1,618	19,283	—	(1,176)	19,725
<b>Segment results</b>	(343)	(608)	(861)	(1,752)	(3,564)
Reconciliation:					
Interest income and unallocated gains					2
Corporate and other unallocated expenses					(5,479)
Finance costs					(33,836)
Loss before tax					(42,877)
<b>Other segment information</b>					
Capital expenditure	—	—	—	—	—
Reconciliation:					
Unallocated capital expenditure					140
					140
Depreciation and amortisation	—	109	1	—	110
Reconciliation:					
Unallocated depreciation and amortisation					45
					155
Impairment loss for trade and bills receivables	2	—	—	—	2
Write back of impairment loss of trade and bills receivables	—	(56)	—	—	(56)

**4. Segment information** (Continued)

	Continuing operations			Discontinued operation		Total HK\$'000 (Unaudited)
	Sales of fabrics HK\$'000 (Unaudited)	Sales of garments and accessories HK\$'000 (Unaudited)	Mine exploitation HK\$'000 (Unaudited)	Subtotal HK\$'000 (Unaudited)	Fabric processing HK\$'000 (Unaudited)	
Six months ended 30 June 2010						
<b>Segment revenue</b>						
Sales to external customers	28,534	115,442	—	143,976	—	143,976
<b>Segment results</b>	(4,906)	5,251	(326)	19	(991)	(972)
Reconciliation:						
Interest income and unallocated gains				6,899	—	6,899
Corporate and other unallocated expenses				(3,454)	—	(3,454)
Finance costs				(39,692)	—	(39,692)
Loss before tax				(36,228)	(991)	(37,219)
<b>Other segment information</b>						
Capital expenditure	239	15	—	254	—	254
Reconciliation:						
Unallocated capital expenditure				388	—	388
				642	—	642
Depreciation and amortisation	341	150	1	492	—	492
Reconciliation:						
Unallocated depreciation and amortisation				9	—	9
				501	—	501
Impairment loss recognised:						
Trade and bills receivables	191	—	—	191	—	191
Other receivables	264	—	—	264	—	264
Write back of impairment loss of trade and bills receivables	(409)	—	—	(409)	—	(409)
Write off of trade and bills receivables	544	—	—	544	—	544
Reconciliation:						
Unallocated write off of trade and bills receivables				134	—	134
				678	—	678

#### 4. Segment information (Continued)

The relevant geographical information of the Group is as follows:

	For the six months ended 30 June 2011				
	Hong Kong HK\$'000 (Unaudited)	United States HK\$'000 (Unaudited)	The PRC HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<b>Segment revenue</b>					
Revenue from continuing operations	(381)	12,742	—	7,364	19,725
<b>Capital expenditure</b>	<b>140</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>140</b>

	For the six months ended 30 June 2010				
	Hong Kong HK\$'000 (Unaudited)	United States HK\$'000 (Unaudited)	The PRC HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<b>Segment revenue</b>					
Sales to external customers	23,347	109,943	3,773	6,913	143,976
Revenue from discontinued operation	—	—	—	—	—
Revenue from continuing operations	23,347	109,943	3,773	6,913	143,976
<b>Capital expenditure</b>	<b>641</b>	<b>—</b>	<b>1</b>	<b>—</b>	<b>642</b>

#### 5. Loss before tax

Loss before tax is stated after crediting and charging the following:

	Six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
<b>Crediting</b>		
Interest income	17	33
Write back of impairment loss of trade and bills receivables	56	409
<b>Charging</b>		
Depreciation on property, plant and equipment	155	501
Operating lease rentals in respect of land and buildings	989	464
Impairment losses for trade and bills receivables and other receivables	2	455
Write off of trade and bills receivables	—	678
Staff costs	4,694	9,164

## 6. Income tax

No provision of Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2010: Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the period less relief for available tax losses brought forward).

Tax on overseas profits is calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	<b>Six months ended 30 June</b>	
	<b>2011</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2010 <b>HK\$'000</b> <b>(Unaudited)</b>
Current tax — Hong Kong Provision for the period	—	621
Current tax — Overseas Provision for the period	—	28
	—	649

As at 30 June 2011, the Group has tax losses of approximately HK\$347 million (31 December 2010: HK\$308 million) 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. Except for tax losses of approximately HK\$6 million (31 December 2010: HK\$28 million) arising in the PRC that are available for offsetting against the following five years' taxable profits of the companies, the tax losses of approximately HK\$341 million (31 December 2010: HK\$280 million) arising in Hong Kong may be carried forward indefinitely. The effect of temporary differences on depreciable assets is not material.

## 7. 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 the sales 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. The Group decided to cease its fabric processing business and accordingly, the fabric processing operation was reclassified as a discontinued operation since then. Since Zhongshan Ching Hing was expected not to resume the fabric processing operation in future, all plant and machineries of Zhongshan Ching Hing would be sold out when interested buyers, if any, had been identified. As at 30 June 2010, the Group was still in the process of seeking for interested buyer(s). Accordingly, the said plant and machineries had been classified as assets classified as held for sale as at 30 June 2010.

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 sales 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\$991,000 was included in the unaudited condensed consolidated income statement for the six months ended 30 June 2010.

**7. Discontinued operation and assets classified as held for sale** (Continued)

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

	<b>Six months ended 30 June</b>	
	<b>2011</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2010 <i>HK\$'000</i> (Unaudited)
Impairment loss of assets classified as held for sale	—	(991)
Income tax expense	—	—
<b>Loss for the period from the discontinued operation</b>	<b>—</b>	<b>(991)</b>

	<b>Six months ended 30 June</b>	
	<b>2011</b> <b>(Unaudited)</b>	2010 (Unaudited) (Restated)
Loss per share:		
Basic, from the discontinued operation	<b>N/A</b>	(0.1 cent)
Diluted, from the discontinued operation	<b>N/A</b>	(0.1 cent)

The calculation of basic loss per share amount from discontinued operation is based on the loss for the period from discontinued operation attributable to owners of the Company, and the weighted average number of 6,923,080,649 (2010: 998,940,928 as adjusted) ordinary shares in issue during the period, as adjusted to reflect the share consolidation during the period, and the rights issue subsequent to the end of the reporting period.

The calculation of diluted loss per share amount is based on the loss for the period 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 period, 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 from discontinued operation presented for the periods ended 30 June 2011 and 2010 in respect of a dilution as the impact of share options outstanding and convertible bonds 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:

	<b>Six months ended 30 June</b>	
	<b>2011</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2010 <i>HK\$'000</i> (Unaudited)
<b>Loss</b>		
Loss attributable to owners of the Company from the discontinued operation	—	(991)



**7. Discontinued operation and assets classified as held for sale** *(Continued)*

	Number of shares	
	At 30 June 2011 (Unaudited)	At 30 June 2010 (Unaudited) (Restated)
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation, adjusted for share subdivision	<b>6,923,080,649</b>	998,940,928

**8. Dividend**

The board of directors does not recommend the payment of any dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

**9. 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 period from continuing operations and discontinued operation attributable to owners of the Company, respectively, and the weighted average number of 6,923,080,649 (2010: 998,940,928 as adjusted) ordinary shares in issue during the period, as adjusted to reflect the share consolidation during the period, and the rights issue 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 period 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 period, 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 periods ended 30 June 2011 and 2010 in respect of a dilution as the impact of share options outstanding and convertible bonds had an anti-dilutive effect on basic loss per share amounts presented.

**9. Loss per share attributable to ordinary equity holders of the Company (Continued)**

The calculations of basic loss per share are based on:

	Six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Restated)
<b>Loss</b>		
Loss attributable to owners of the Company, used in the basic loss per share calculation:		
From continuing operations	(40,757)	(38,292)
From discontinued operation	—	(991)
Loss attributable to owners of the Company	<b>(40,757)</b>	(39,283)
Attributable to:		
Continuing operations	<b>(0.6 cent)</b>	(3.8 cents)
Discontinued operation	—	(0.1 cent)
	<b>(0.6 cent)</b>	(3.9 cents)

	Number of shares	
	At 30 June 2011 (Unaudited)	At 30 June 2010 (Unaudited) (Restated)
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation, adjusted for the share subdivision	<b>6,923,080,649</b>	998,940,928

**10. Exploration and evaluation assets**

	HK\$'000 (Unaudited)
Additions through acquisition of subsidiaries	<b>1,698,102</b>
Exchange realignment	<b>379</b>
At 31 December 2010	<b>1,698,481</b>
Exchange realignment	<b>335</b>
At 30 June 2011	<b>1,698,816</b>

**10. Exploration and evaluation assets** *(Continued)*

The Group, through its subsidiaries, 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 County Taoyuan — Dazuomugou Taicitie Mine), an iron and titanium dioxide mine with a total mining area of 7.8892 km<sup>2</sup> located at Ziyang County, Shaanxi Province, the PRC. However, the Group has to obtain other licences to commence/continue the operations of the Mine.

**11. Trade and bills receivables**

	<b>At 30 June 2011 HK\$'000 (Unaudited)</b>	At 31 December 2010 HK\$'000 (Audited)
Trade and bills receivables	<b>1,446</b>	2,190
Impairment	<b>(700)</b>	(754)
	<b>746</b>	1,436

**12. Trade and bills payables**

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

	<b>At 30 June 2011 HK\$'000 (Unaudited)</b>	At 31 December 2010 HK\$'000 (Audited)
0 — 30 days	—	966
31 — 60 days	<b>595</b>	3
61 — 90 days	<b>5</b>	—
Over 90 days	<b>248</b>	5,836
	<b>848</b>	6,805

### 13. 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 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 HK\$0.01 each. The Company has early redeemed part of the 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. Up to 30 June 2011, the Company has early redeemed part of the convertible bonds of HK\$80,000,000 before the maturity date. The outstanding principal amounts of the convertible bonds as at 30 June 2011 was HK\$606,800,000.

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

	<b>Liability component</b>	<b>Equity component</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Issue of convertible bonds	1,164,499	515,501	1,680,000
Conversion into shares during the year	(587,455)	(252,596)	(840,051)
Redemption during the year	(117,836)	(52,164)	(170,000)
Interest expense	75,364	—	75,364
Interest paid upon redemption	(2,465)	—	(2,465)
<b>At 31 December 2010</b>	<b>532,107</b>	<b>210,741</b>	<b>742,848</b>
Redemption during the period	(55,453)	(24,547)	(80,000)
Interest expense	33,828	—	33,828
Interest paid	(12,169)	—	(12,169)
Interest paid upon redemption	(1,353)	—	(1,353)
<b>At 30 June 2011</b>	<b>496,960</b>	<b>186,194</b>	<b>683,154</b>

Subsequent to 30 June 2011, the Company had redeemed convertible bonds of nominal value of HK\$240 million with interest of approximately HK\$1.5 million.

**14. Share capital**

	No. of shares	HK\$'000 (Unaudited)
Authorised:		
As at 1 January 2010	<b>5,000,000,000</b>	250,000
Increase in authorised capital (note a)	<b>25,000,000,000</b>	1,250,000
As at 3 May 2010 before share subdivision	<b>30,000,000,000</b>	1,500,000
Share subdivision on 4 May 2010 (note b)	<b>120,000,000,000</b>	—
As at 30 June 2010	<b>150,000,000,000</b>	1,500,000
Share consolidation and capital reduction (note c)	<b>1,350,000,000,000</b>	—
As at 31 December 2010	<b>1,500,000,000,000</b>	1,500,000
Share consolidation on 7 March 2011 (note d)	<b>(1,425,000,000,000)</b>	—
As at 30 June 2011	<b>75,000,000,000</b>	1,500,000
Issued and fully paid:		
As at 1 January 2010	<b>384,349,468</b>	19,217
Issue of shares upon conversion of convertible bonds (note e)	<b>850,000,000</b>	42,500
As at 3 May 2010 before share subdivision	<b>1,234,349,468</b>	61,717
Share subdivision on 4 May 2010 (note b)	<b>4,937,397,872</b>	—
Issue of shares upon exercise of share options (note f)	<b>8,000,000</b>	80
Issue of shares upon conversion of convertible bonds (note g)	<b>14,459,090,908</b>	144,591
Issue of new shares through placement (note h)	<b>2,057,767,649</b>	20,577
Share consolidation and capital reduction (note c)	<b>(22,242,673,780)</b>	(226,512)
Issue of new shares through placement (note i)	<b>90,786,423</b>	91
Issue of rights shares (note j)	<b>4,357,748,320</b>	4,358
As at 31 December 2010	<b>4,902,466,860</b>	4,902
Issue of new shares through placement (note k)	<b>980,000,000</b>	980
Share consolidation on 7 March 2011 (note d)	<b>(5,588,343,517)</b>	—
Issue of new shares through placement (note l)	<b>58,000,000</b>	1,160
As at 30 June 2011	<b>352,123,343</b>	7,042

## Notes:

- (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 HK\$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.

#### 14. Share capital (Continued)

Notes (Continued):

- (c) 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.
- (d) 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 shares 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.
- (e) 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.
- (f) 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 share options at the exercise price of HK\$0.014 per share.
- (g) 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.
- (h) 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.
- (i) On 5 October 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 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.
- (j) 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.
- (k) On 24 January 2011, 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 980,000,000 placing shares to not less than 6 independent placees at a price of HK\$0.0245 per placing share. The aggregate nominal value of the placing shares under the placing agreement will be approximately HK\$980,000. The net proceeds from the placement of approximately HK\$23 million will be used for general working capital of the Group.
- (l) On 22 March 2011, 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 58,000,000 placing shares to not less than 6 independent placees at a price of HK\$0.25 per placing share. The aggregate nominal value of the placing shares under the placing agreement will be approximately HK\$1,160,000. The net proceeds from the placement of approximately HK\$13.9 million will be used for general working capital of the Group.

## 15. 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 Annual 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. At 30 June 2011, the total number of shares available for issue under the 2002 Share Option Scheme was 1,383,792 (adjusted due to share consolidation on 7 March 2011) shares, which represented approximately 8% 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.

**15. Share-based payment transactions (Continued)**
**Equity-settled share option scheme of the Company (Continued)**

At 30 June 2011, a total of 777,780 (31 December 2010: 15,555,600) share options were still outstanding under the 2002 Share Option Scheme as follows:

	Grant date	At 1 January 2011	Adjusted upon the share consolidation	At 30 June 2011	Exercise period	Exercise price per share HK\$
<b>Executive director</b>						
Mr. Yiu Kwok Ming, Tommy	26.9.2006	2,880,000	(2,736,000) (note 1)	144,000	30.11.2007- 25.9.2016	1.56 (note 1)
	11.6.2008	3,457,800	(3,284,910) (note 2)	172,890	11.6.2008- 10.6.2018	11.12 (note 2)
<b>Sub-total</b>		6,337,800	(6,020,910)	316,890		
<b>Other eligible employees</b>						
	26.9.2006	5,760,000	(5,472,000) (note 1)	288,000	30.11.2007- 25.9.2016	1.56 (note 1)
	11.6.2008	3,457,800	(3,284,910) (note 2)	172,890	11.6.2008- 10.6.2018	11.12 (note 2)
		15,555,600	(14,777,820)	777,780		

Notes:

- (1) The number and the exercise price of share options which remained outstanding have been adjusted due to share consolidation of the Company with effect from 7 March 2011 (note 14(d)). The exercise price per share was adjusted from HK\$0.078 to HK\$1.56.
- (2) The number and the exercise price of share options which remained outstanding have been adjusted due to share consolidation of the Company with effect from 7 March 2011 (note 14(d)). The exercise price per share was adjusted from HK\$0.556 to HK\$11.12.

**16. Banking facilities**

At 30 June 2011, the Group's credit facilities amounting to approximately HK\$90,500,000 (31 December 2010: HK\$85,000,000) granted by banks and a credit company were secured by the following:

- (a) guarantees given by the non-controlling shareholders of subsidiaries for approximately HK\$67,160,000 (31 December 2010: HK\$69,610,000);
- (b) charges over bank deposits of the Group of approximately HK\$2,869,000 (31 December 2010: HK\$1,873,000);



**16. Banking facilities** *(Continued)*

- (c) personal guarantees of approximately HK\$12,000,000 (31 December 2010: HK\$67,840,000) given by a director of the Company; and
- (d) personal guarantees of approximately HK\$80,840,000 (31 December 2010: HK\$23,000,000) given by a former director of the Company.

**17. Commitments****Operating lease commitments**

As lessee

At 30 June 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>30 June 2011 HK\$'000 (Unaudited)</b>	31 December 2010 HK\$'000 (Audited)
Within one year	<b>2,347</b>	2,236
In the second to fifth years inclusive	<b>3,229</b>	4,360
	<b>5,576</b>	6,596

**18. Related party transactions and balances**

During the period, the Group entered into the following material transactions with its related parties in the normal course of business:

	<b>2011 HK\$'000 (Unaudited)</b>	2010 HK\$'000 (Unaudited)
Six months ended 30 June		
(a) Transactions with related parties:		
Rental paid to a related company <i>(note (i))</i>	—	420
Interest paid to a related company <i>(note (iv))</i>	—	250
Interest paid to a director <i>(note (iii))</i>	—	58
Interest paid to a shareholder <i>(note (iii))</i>	—	142
Management fee paid to a related company <i>(note (v))</i>	<b>48</b>	—
Purchase from a related company <i>(note (v))</i>	<b>73</b>	—
At 30 June/31 December		
(b) Balances with related parties:		
Amount due to a related company <i>(note (v))</i>	<b>83</b>	—

## 18. Related party transactions and balances *(Continued)*

- (c) Members of key management during the period comprised 4 (six months ended 30 June 2010: 4) executive directors whose remuneration is amounting to HK\$1,717,000 (six months ended 30 June 2010: HK\$1,670,000).

Notes:

- (i) Mr. Yiu Ching On, a former executive 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, Ms. Wong Kai Chun, is the spouse of Mr. Yiu Ching On. The amount due to the shareholder was unsecured and interest bearing at 4.75% p.a. and had no fixed terms of repayment at 30 June 2010.
- (iii) Mr. Yiu Kwok Ming, Tommy is an executive director of the Company. The amount due to the director at 30 June 2010 was unsecured and had no fixed terms of repayment, of which HK\$3,280,000 was interest-free and HK\$2,000,000 bore interest at 1% over Hong Kong prime rate.
- (iv) Mr. Yiu Ching On, a former executive director of the Company, beneficially owns another related company. The amount due to the related company was unsecured, interest bearing at 1% over Hong Kong prime rate and was repayable by 120 monthly instalments commencing on 18 August 2008.
- (v) The amount due to Ching Hing Weaving Dyeing & Printing Factory Limited, in which Mr. Yiu Kwok Ming, Tommy is beneficially interested, is unsecured, interest-free and repayable on demand.

## 19. Events after the reporting period

On 25 July 2011, the Company issued rights shares on the basis of 22 rights shares for every one existing share held on 28 June 2011, at the subscription price of HK\$0.05 per rights share with nominal value of HK\$0.02 each (the "Rights Issue"). Upon the completion of the Rights Issue on 25 July 2011, the number of issued shares was increased from 352,123,343 shares to 8,098,836,889 shares of HK\$0.02 each.

On 3 August 2011, the Group, through its wholly owned subsidiaries, Blue Champion Limited ("BC") and Gold Supernova Limited ("GS"), entered into a shareholder agreement with two independent third parties, pursuant to which the Group will partially dispose of 37% interests in GS to the two independent parties. Upon completion, GS will be engaged in the business of design and related services and sales of designer products. Pursuant to the shareholder agreement, BC shall make a shareholder loan to GS of not more than HK\$14 million. The management of the Group believes such arrangement and advance will broaden the source of the income.

## 20. Comparative amounts

Certain comparative amounts have been reclassified and restated to conform with the current period presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group was principally engaged in the sales of fabrics, garments and accessories, iron and titanium exploration, development and mining in the PRC, and securities investment during the period under review.

### FINANCIAL RESULTS

The Group has recognized an unaudited net loss attributable to shareholders of HK\$40.8 million for the six months ended 30 June 2011 as compared with a net loss of HK\$39.3 million in the same period last year. The increase was mainly due to a decrease in other income and decrease in turnover with the increase of production cost in garment sectors and the change in the sales team of a subsidiary.

The Group's unaudited turnover was HK\$19.7 million, representing a 86% decrease over the corresponding figure of HK\$144 million in the same period last year. The decrease was mainly because the management adopted a prudent approach in accepting sales order/even stopped accepting sales order to take sounding under the continued surge in production cost and the change in the sales team during the period. These caused a drop in turnover and distribution costs.

Administrative expenses of the Group for the six months ended 30 June 2011 amounted to HK\$8.3 million, representing an increase of 10.8% as compared with HK\$7.5 million of the same period last year. The increase was principally attributed by increase in salaries and appreciation of Renminbi.

In the prior period, the Group issued convertible bonds in a principal amount of HK\$1,680 million as the consideration for the acquisition of an iron and titanium dioxide mine. In order to reduce the finance costs, the Company redeemed HK\$80 million together with an interest expense of approximately HK\$1.4 million during the period. Hence, there was a decrease of 16% in finance costs compared with the same period last year.

### INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

## BUSINESS REVIEW AND PROSPECTS

### Sale of Fabrics, Garments and Accessories

In the period under review, the extremely poor export market conditions resulted from the global economic tsunami began to improve gradually. Recovery from the global downturn has been slow and high unemployment continued to hamper the major export markets of the Group. Hence, the Group faced an unprecedented challenge in the form of severe hikes in cotton prices, which constitutes a major component of its garment products.

The surge in global cotton prices was fuelled by a combination of factors, including stronger than anticipated demand in major emerging economies, lower supply due to flooding in Pakistan and Australia, and export restrictions on cotton in India. As a result of the upsurge in fabric costs during the year and keen competition in the apparel industry, the revenue decreased by 86%.

In respect of operation, South Field (Pacific) Ltd ("South Field") purchases cottons worldwide and delivers the cottons to Bangladesh for garment production. The garment will then be sold to United States. Therefore, it generally accepts sales order 2 months before the date of delivery. In view of the continuous surge in production cost (cotton), the management accepted sales order prudently/even stopped accept sales order to take sounding and therefore caused a decrease in turnover. The decrease in turnover was also due to the change in the sales team during the period. South Field is in the process of coordination with the customers and re-building of the sales team.

### **Mining Business**

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 non-ferrous industry. The mining company held a mining licence under which it has the right to conduct mining and exploitation works in a mine located at Ziyang County, Shaanxi Province, the PRC.

During the period under review, the Group has submitted the application for licence to the relevant authorities in order to commence the production. The approval procedures were in progress as at 30 June 2011.

During the period under review, the mining business recorded a loss of HK\$0.8 million, which was mainly attributable to administrative expenses.

### **Trading in Securities**

To well utilize the Group's cash on hand, the Group started trading in securities in the previous year. However, due to the distress caused by the economic downturn in United States and Eurozone countries, the stock market in Hong Kong remained unstable in the first half of the year. Hence, a loss of investment was recorded during the period.

### **DIRECTORS' INTERESTS IN SECURITIES**

As at 30 June 2011, 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 for Securities Transactions by Directors of Listed Companies contained in the Listing Rules ("Model Code"):

**Shares — long position****The Company:**

Name of director	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Yiu Kwok Ming, Tommy	1,036,225	—	—	—	1,036,225

**Interest in underlying shares**

The directors of the Company have been granted options under the Company's share option scheme, details of which are set out in note 15 to condensed consolidated interim financial statements.

Save as disclosed above and note 15 to condensed consolidated interim financial statements, at no time during the period 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 period 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**

As at 30 June 2011, there was no substantial shareholder of the Company but the following parties (other than the directors) have long positions in the underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

**Interest in underlying shares**

Name	Number of underlying shares interested	Percentage of issued share capital at 30 June 2011
Maple Creation Limited (notes a and b)	49,983,525	14.19%

Notes:

- (a) Maple Creation Limited is legally and beneficially owned as to 100% by Mr. Fung Man Chun. It held HK\$606,800,000 convertible bonds of the Company.
- (b) The interest represents the maximum number of new shares which may be issued upon the full conversion of convertible bonds issued by the Company at the adjusted conversion price HK\$12.14 per share.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had total assets of HK\$1,771 million which were financed by total liabilities of HK\$527 million and equity of HK\$1,244 million. Accordingly, the Group's ratio of debts to total assets and debts to equity decreased to 29.7% (31 December 2010: 30.9%) and 42.4% (31 December 2010: 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. As at 30 June 2011, the Group had cash on hand, bank deposits and bank balances of an aggregate amount of about HK\$58 million (of which about HK\$2.8 million was pledged with banks for banking facilities to the Group) and unutilised banking facilities of a total amount of about HK\$1.5 million.

To strengthen its financial position for normal daily operation and expansion and to further broaden the shareholder base, subsequent to the period end, the Company issued 7,746,713,546 rights shares at the subscription price of HK\$0.05 per share. The net proceeds from the rights issue are approximately HK\$373.59 million.

## CAPITAL STRUCTURE

On 24 January 2011, 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 980,000,000 placing shares to not less than 6 independent placees at a price of HK\$0.0245 per placing share. The aggregate nominal value of the placing shares under the placing agreement will be approximately HK\$980,000. The net proceeds from the placement of approximately HK\$23 million will be used for general working capital of the Group.

Pursuant to an ordinary resolution passed on 7 March 2011, every 20 issued and unissued shares of HK\$0.001 each in the share capital of the Company were consolidated into 1 consolidated share of HK\$0.02 each.

On 22 March 2011, 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 58,000,000 placing shares to not less than 6 independent places at a price of HK\$0.25 per placing share. The aggregate nominal value of the placing shares under the placing agreement will be approximately HK\$1,160,000. The net proceeds from the placement of approximately HK\$13.9 million will be used for general working capital of the Group.

Apart from the above, there was no change in the capital structure of the Company during the period under review.

## **PLEDGE OF ASSETS**

As at 30 June 2011, the Group's bank deposits of about HK\$2.8 million was pledged with banks for banking facilities to the Group.

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

As at 30 June 2011, the Group employed about 32 employees including sales and merchandising, accounting and administrative staff in Hong Kong and the PRC. The total staff costs and directors' remuneration for the period were approximately HK\$4.6 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**

### **Fashion design**

On 3 August 2011, the Group, through its wholly owned subsidiaries, Blue Champion Limited ("BC") and Gold Supernova Limited ("GS"), entered into a shareholder agreement with two independent third parties, pursuant to which the Group will partially dispose of 37% interests in GS to the two independent parties. Upon completion, GS will be engaged in the business of design and related services and sales of designer products. Pursuant to the shareholder agreement, BC shall make a shareholder loan to GS of not more than HK\$14 million. The management of the Group believes such arrangement and advance will broaden the source of the income.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

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 abovementioned non-compliance, none of the directors of the Company is aware of information that would reasonably 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 the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in Model Code.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2011.

## **AUDIT COMMITTEE**

The Audit Committee currently comprises three independent non-executive directors, namely Mr. Ng Lok Kei, Mr. Chan Hon Yuen and Mr. Liang Jin An. The Audit Committee has reviewed the Unaudited Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2011. The Committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices.

## **REMUNERATION COMMITTEE**

The Remuneration Committee currently comprises three independent non-executive directors, namely Mr. Liang Jin An, Mr. Ng Lok Kei and Mr. Chan Hon Yuen and one executive director, namely Mr. Yiu Kwok Ming, Tommy. Mr. Liang Jin An is the Chairman of the Committee. The Committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices.



## MEMBERS OF THE BOARD

### Executive directors

Mr. Yiu Kwok Ming, Tommy (*Managing Director*)

Mr. Wong Man Pan

Mr. Yim Hin Keung

Mr. Tsang King Sun (*appointed on 18 July 2011*)

Mr. Chan Yiu Fai (*resigned on 31 May 2011*)

### Independent non-executive directors

Mr. Liang Jin An

Mr. Ng Lok Kei (*appointed on 10 June 2011*)

Mr. Chan Hon Yuen (*appointed on 30 June 2011*)

Mr. Wong Chun Hung (*resigned on 30 June 2011*)

Mr. Cheung Cho Yiu (*resigned on 10 June 2011*)