意科控股

eFORCE HOLDINGS LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

(STOCK CODE : 943)

Annual Report 2011

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CORPORATE INFORMAITON

DIRECTORS

Executive Directors

Mr. Tam Lup Wai, Franky *(Chairman)*
Mr. Liu Liyang *(CEO and Deputy Chairman)*
Mr. Jiang Chunming
Madam Lu Mujuan
Mr. Luo Xiaohong
Mr. Siswo Awaliyanto
Mr. Wan Shouquan

Independent Non-executive Directors

Mr. Lam Bing Kwan
Mr. Lam Ming On
Mr. Wong Man Chung, Francis

COMPANY SECRETARY

Mr. Chan Tsz Leung

AUDITOR

RSM Nelson Wheeler
Certified Public Accountants
29th Floor, Caroline Centre
Lee Gardens Two
28 Yun Ping Rood
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited

PRINCIPAL REGISTRAR

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

BRANCH REGISTRAR

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 3008, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

STOCK CODE

943

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Tam Lup Wai, Franky ("Mr. Tam")

(Chairman)

Mr. Tam, aged 63, was appointed as Executive Director of the Company on 17 December 2001 and the Chairman of the board of Directors of the Company on 21 July 2011. He was also appointed as a member of the Remuneration Committee of the Company on 3 July 2007. Mr. Tam holds a BA in Applied Mathematics from the University of California at Berkeley, USA. He has diversified management experiences in the fields of property, retail and technology. He also specializes in formulating and executing business strategies for companies and has experience in the investment of technology start-up. He was previously an administration director of a conglomerate comprises four listed companies in Hong Kong and directly oversaw the administration of the group and responsible in managing several subsidiaries' operations, including properties acquisition, strategic investments and hotel start-up project. Mr. Tam also served as executive director of a Hong Kong publicly listed fashion retail chain store with over 200 outlets in Hong Kong and China and was instrumental in setting up the franchise operation in the PRC before joining the Company in 2001.

Mr. Liu Liyang ("Mr. Liu")

(CEO and Deputy Chairman)

Mr. Liu, aged 51, was appointed as Deputy Chairman of the Board and the Chief Executive Officer ("CEO"), Executive Director and a member of the Remuneration Committee of the Company on 19 August 2010. Mr. Liu has 16 years of experience in the investment banking industry. Before joining the Company, he was the co-head of the China Investment Banking of Nomura International (HK) Limited. He had also worked in the Merrill Lynch (Asia Pacific) Limited, China International Capital Corporation Limited and Morgan Stanley & Co. Inc. Mr. Liu holds an MBA degree from Columbia University.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Jiang Chunming ("Mr. Jiang")

Mr. Jiang, aged 59, was appointed as Executive Director of the Company on 20 December 2011. He holds a professional diploma in mining engineering from the Heilongjiang Mining Institute (黑龍江礦業學院) and a certificate in corporate management of The Association for Overseas Technical Scholarship of Japan (日本海外技術研修者協會) and was appointed as a senior economist of the PRC Ministry of Coal in 1996. Mr. Jiang has close to 40 years of experience in the coal mining industry with many different roles, from being a miner to being a mine manager and from being a Party Secretary to being a general manager. He started as a miner in 1970 at Donghai Coal Mine of Jixi Mining Bureau of Heilongjiang (黑龍江雞西礦務局東海煤礦). From 1981 to 1983, he was a researcher in the Office of Heilongjiang Provincial Coal Industry Administration Bureau (黑龍江省煤炭工業管理局辦公室) and was responsible for the feasibility study for related policies and projects in the mining industry. From 1983 to 1985, he was the Party Committee Secretary of the Northeast and Inner Mongolia Coal Industry Allied Company (東北內蒙古煤炭工業聯合公司). During that time, the Northeast and Inner Mongolia Coal Industry Allied Company was a delegation from the State Council of the PRC and an independent planning unit at the vice-ministerial level. On behalf of the State Council, the Northeast and Inner Mongolia Coal Industry Allied Company was responsible for implementing plans, organizing production and development of all the coal mining enterprises in the northeast three provinces of the PRC and the Inner Mongolia Autonomous Region East Third League. From 1985 to 1990, Mr. Jiang was deputy head of Daqiao Coal Mine Preparatory Office of Liaoning Shenyang Coal Mining Bureau (遼寧瀋陽礦務局大橋煤礦籌備處), mine manager of Puhe Coal Mine of Liaoning Shenyang Coal Mining Bureau (遼寧瀋陽礦務局浦河煤礦) and Deputy Party Secretary of Liaoning Shenyang Coal Mining Bureau (遼寧瀋陽礦務局). From 1990 to 1994, Mr. Jiang was secretary of the League Committee of The Northeast and Inner Mongolia Coal Industry Allied Company and a committee member of the Twelve Central Committee of the PRC Communist Youth League (中國共產主義青年團), responsible for the production and operation technical training of the youth workers. From 1994 to 2005, Mr. Jiang was general manager of Liaoning Coal Industry Import and Export Corporation (遼寧煤炭進出口總公司) and general manager of Dalian Yangguang Industrial Corporation (大連陽光實業公司) whose core business is domestic and foreign coal trading. Since 2005, Mr. Jiang has been the Chairman and President of Qinghai Xibei Resources and Investment Group Co. Limited (青海西北資源投資集團有限公司) and taken charge of investment projects in resources and geological exploration of nonferrous metal. At present, Qinghai Xibei Resources Investment Group Company Limited has invested in nine nonferrous metal geological explorations and is qualified to conduct grade B geological exploration and licensed to sell coal.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Madam Lu Mujuan ("Madam Lu")

Madam Lu, aged 70, was appointed as Executive Director of the Company on 20 December 2011. Madam Lu graduated from Fuxin Mining Institute (阜新煤礦學院), which is currently known as Liaoning Technical University (遼寧工程技術大學), in 1964 with a major of mining equipment manufacture and has over 30 years of coal mining experiences. In 1964, she joined Wuhan Coal Design & Research Institute of Ministry of Coal Industry (武漢煤炭設計研究院) (which is currently known as Wuhan Design & Research Institute of Sino-coal International Engineering Group (中煤國際工程集團武漢設計院) and became a senior engineer. During her tenure at mining operations, Madam Lu was responsible for the design of mining equipment and managed a number of designing projects located in Beijing city, Hebei province, Henan and Hunan province. Madam Lu participated in various projects and some of these projects won a series of awards including the First Prize of Advanced Equipment, Second Prize of National Advanced Equipment by the Ministry of Coal Industry (中華人民共和國煤炭工業部), and the Third Prize of Quality System Certification by Wuhan Coal Design & Research Institute (武漢煤炭設計研究院) (which is currently known as Wuhan Design & Research Institute of Sino-coal International Engineering Group (中煤國際工程集團武漢設計院).

Mr. Luo Xiaohong ("Mr. Luo")

Mr. Luo, aged 47, was appointed as Executive Director of the Company on 20 December 2011. Mr. Luo has been involved in mineral evaluation work for more than 20 years. He graduated from Chengdu College of Geology (成都地質學院) in 1985 with a major in Mining Studies, specializing in Geology and Mining Investigation. He obtained a title of Senior Engineer in Geology and Mining in 1999 and was qualified as a Mineral Resources Reserves Evaluation Expert of Guangxi Province in 2004. In 2007, he obtained the title of Professor-Level Senior Engineer in Geology and Mining. He acted as Deputy Director-General of the Resources Evaluation Department in Jiangxi Geology Investigation Research Institute (江西省地質調查研究院) from 2006 and was in charge of the work in the Resources Evaluation Department at the end of 2007. In June 2009, he acted as the Deputy Chief Engineer of the Jiangxi Geology 3 Investigation Research Institute and the Director-General of the Resources Evaluation Department. Since 2006, he has been the responsible person of the National Geology Big Investigation Project of "Jiangxi Shangli-Fengxin District Copper Polymetallic Mine Evaluation" (江西上栗—奉新地區銅多金屬礦評價) and "Jiangxi Jiurui District Copper Polymetallic Mine Prospective Study" (江西九瑞地區銅多金屬礦遠景調查).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Siswo Awaliyanto ("Mr. Awaliyanto")

Mr. Awaliyanto, aged 48, was appointed as Executive Director of the Company on 20 December 2011. Mr. Awaliyanto was graduated from Pembangunan National Veteran University, Yogyakarta Indonesia in 1993 with a major in mine engineering and has over 15 years of mining experience in Indonesia including coal, nickel and bauxite mines. From 1995 to 1997, he worked as a production and operation superintendent for PT Abdi sarana Nusa, which is a mine contractor for a coal mine in Sijunjung West Sumatera, Indonesia. From 1997 to 1999, he worked as a mine engineer for PT Bumi Cipta Sakapiranti. From 2000 to 2002, he worked as a senior mine operation supervisor for PT Jorong Barutama Greston. During the period from 2002 to 2004, he worked as a production supervisor for PT Cipta Kridatama, sub-contractors of a coal project in East Kalimantan. From 2004 to 2005, he worked as a project head for PT Cipta Kridatama, mine contractors in a coal mine project in East Kalimantan. From 2005 to 2006, he worked as an assistant project manager for PT Cipta Kridatama which acted as the mine contractors for a coal mine project in Sumatera. In 2006 to 2009, he worked as a technical mine manager of a nickel mine in Halmahera, Indonesia for PT Kemakmuran Pertiwi Tambang. From 2009 till now, Mr. Awaliyanto has been working as a technical mine manager of a bauxite mine in West Kalimantan for PT Harita Prima Abadi Mineral Jakarta. Mr. Awaliyanto has mainly been responsible for mine production scheduling and mine planning.

Mr. Wan Shouquan ("Mr. Wan")

Mr. Wan, aged 75, was appointed as Executive Director of the Company on 20 December 2011. Mr. Wan has over 30 years of coal mining experiences including 24 years in coal mine operations. Mr. Wan graduated from Fuxin Mining Institute (阜新煤礦學院), which is currently known as Liaoning Technical University (遼寧工程技術大學), in 1962 with a major in electromechanical engineering. In 1962, he joined No. 1 Mine of Liaoning Tie Fa Coal Mining Bureau (遼寧鐵法礦務局) (currently known as Liaoning Tie Fa Energy Company Limited (遼寧鐵法能源有限責任公司)) and became a junior engineer, mining captain and sub-division chief, deputy chief and engineer. From 1983 to 1988, he was a division chief and senior engineer of Tie Fa Coal Mining Bureau. During 1988 and 1989, he was the chief and senior engineer of Da Long Coal Mine of Tie Fa Coal Mining Bureau (鐵法礦務局大隆礦). From 1989 to 1996, Mr. Wan was vice-chief engineer and professor-level senior engineer of Tie Fa Coal Mining Bureau. From 1998 to 2000, Mr. Wan worked for China International Engineering Consulting Corporation (中國國際工程諮詢公司) as a supervisory engineer. During Mr. Wan's tenure at mining operations, he was responsible for production, well reconstruction/expansion, technical control and safety control. Mr. Wan was awarded a number of rewards including Advanced Worker, Technology Improvement Prize and Advanced Scientific and Technological Worker. He was awarded the Second Prize of Scientific and Technological Progress by the China Ministry of Energy (中華人民共和國能源部) for his dissertation on transportation technology in mine well. Mr. Wan was also awarded the First Prize of Scientific and Technological Progress by the China Ministry of Coal Industry (中華人民共和國煤炭工業部) for his coal mining project.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Bing Kwan ("Mr. Lam")

Mr. Lam, aged 62, was appointed as an Independent Non-executive Director and member of the Audit Committee of the Company on 30 September 2004. He was further appointed as the Chairman of the Remuneration Committee on 1 August 2005. Mr. Lam graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. Mr. Lam has been in senior management positions in the banking and financial industry for more than 10 years. He is a non-executive director of Sino-i Technology Limited (formerly known as Sino-i.com Limited) and Nan Hai Corporation Limited (formerly known as South Sea Holdings Company Limited), and an independent non-executive director of Lai Fung Holdings Limited, Lai Sun Development Company Limited and Lai Sun Garment (International) Limited, all of which are companies listed on the Main board of the Hong Kong Stock Exchange (the "Stock Exchange").

Mr. Lam Ming On ("Mr. Lam")

Mr. Lam, aged 52, was appointed as an Independent Non-executive Director and member of the Audit Committee and Remuneration Committee of the Company on 1 December 2011. Mr. Lam is a Certified Practising Accountant of CPA Australia and associates of both Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. He obtained a Bachelor of Arts degree from The University of Hong Kong in 1982 and a Master of degree of Business Administration from The University of Sydney in 1992. Mr. Lam has over 20 years of professional and business experience in financial and investment management in Hong Kong and PRC.

Mr. Wong Man Chung, Francis ("Mr. Wong")

Mr. Wong, aged 47, was appointed as an Independent Non-executive Director and member of the Audit Committee and Remuneration Committee of the Company on 12 November 2009. He was further appointed as the Chairman of the Audit Committee on 1 December 2011. Mr. Wong is a Certified Public Accountant (Practicing) and has over 21 years of experience in auditing, taxation, and management and financial advisory. He is currently an Independent Non-Executive Director and either a chairman or a member of the audit/remuneration committee of China Oriental Group Company Limited, Digital China Holdings Limited and Wai Kee Holdings Limited, the shares of all of which are listed on the Main Board of the Stock Exchange. In May 2009, Mr. Wong resigned as the Independent Non-Executive Director of Lightscape Technologies Inc., a company whose shares are traded on the OTC Bulletin Board in the United States of America. He had been an Independent Non-Executive Director of Enviro Energy International Holdings Limited (formerly known as Sys Solutions Holdings Limited), a company listed on the GEM board of the Stock Exchange and an Independent Non-Executive Director and chairman of the audit committee of Yardway Group Limited whose shares are listed on the Main Board of the Stock Exchange. Mr. Wong is a director of both Union Alpha C.P.A. Limited and Union Alpha CAAP Certified Public Accountants Limited, both are professional accounting firms, and a Founding Director and member of Francis M.C. Wong Charitable Foundation Limited, a charitable institution.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Previously, Mr. Wong worked for an international accounting firm for 6 years and the Hong Kong Securities Clearing Company Limited for 2 years. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, a Certified Tax Advisor of the Taxation Institution of Hong Kong, an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Society of Chinese Accountants & Auditors. Mr. Wong holds a masters degree in management conferred by Guangzhou Jinan University, the PRC.

SENIOR MANAGEMENT

Mr. Sugahara Toshio ("Mr. Sugahara")

Mr. Sugahara, aged 47, joined the Group in 2007. Mr. Sugahara is the General Manager of Fairform Manufacturing Limited, a wholly-owned subsidiary of the Group, and is responsible for the overall production management and quality control of the Group's manufacturing operation. Mr. Sugahara has obtained a Bachelor Degree in Mechanical Engineering from the University of Brighton (UK) and a Master Degree of Business Administration from the University of South Australia. He is a member of the Institution of Engineering and Technology (UK) and has extensive working experience in project engineering, product research and development and production management.

Mr. Wong Sze Yat, Robert ("Mr. Wong")

Mr. Wong, aged 48, joined the Group in 1998. Mr. Wong is the Marketing Director of Fairform Manufacturing Limited and is responsible for sales and marketing function of the Group's manufacturing operation. Mr. Wong has a Diploma in Business Studies from the Salford Technology College (UK). Mr. Wong has over 20 years of working experience in marketing small household electrical appliances and household products.

Mr. Leung Tak Ming ("Mr. Leung")

Mr. Leung, aged 51, joined the Group in 2000. Mr. Leung is the Finance Director of Fairform Manufacturing Limited and is responsible for the finance and accounting function of the Group's manufacturing operation. He is a Member of HKICPA and has over 20 years of working experience in financial management in manufacturing industry.

Mr. Chan Tsz Leung ("Mr. Chan")

Mr. Chan, aged 45, is the Company Secretary of the Company. Mr. Chan is a member of CPA Australia. Mr. Chan holds a Bachelor degree in Commerce from the Murdoch University, Western Australia, Australia. Mr. Chan joined the Group in 2004 as Accountant and had working experience in Hong Kong, Singapore and the PRC.

CHAIRMAN'S STATEMENT

On behalf of eForce Holdings Limited (the "Company") and its subsidiaries (the "Group"), I am pleased to present the annual report of the Group for the financial year ended 31 December 2011.

REVIEW AND PROSPECT

For the past few years, the Company had been exploring ways to improve the financial performance of the Group including the diversification of the Group's operation to new and more profitable business. With the completion of our acquisition of the PT Bara Mine in Indonesia in July 2011, it was marked as a watershed in the Group's operational history with the entering of coal mining business. It also signified our endeavour to enhance long-term shareholders value.

Apart from the management team that we had set up in Indonesia to manage the day-to-day operation of the PT Bara Mine, we had appointed Mr. Jiang Chunming, Madam Lu Mujuan, Mr. Luo Xiaohong, Mr. Siswo Awaliyanto and Mr. Wan Shouquan as our new executive directors in December 2011. All of them are expertise in different areas of the mining industry and are responsible for the development and monitoring of the Company's coal mining business strategy and assisting the board of directors and senior management of the Company in overall operations control.

For the manufacturing business, coupled weak consumer demand with the appreciation of RMB and the increase of minimum wages in Dongguan Guangdong Province PRC in March 2011, the gross profit margin was adversely hit and at its lowest level since 2009. In order to improve our competiveness in 2012, we will continue our efforts in developing new products and improving workers' efficiency.

ACKNOWLEDGEMENTS

I wish to take this opportunity to thank my fellow directors whose counsel and guidance were important for the well-being of the Company. I also thank the management and staff for their dedicated support and contribution.

On behalf of the board of directors, I would like to place on record its appreciation of the services of Mr. Hu Xiao and Mr. Yeung King Wah during their tenure of office. Both of them resigned as directors and left the Company during 2011.

Lastly, I would like to express my utmost appreciation to our business partners, customers and shareholders for their invaluable support in the year just past.

Tam Lup Wai, Franky
Chairman and Executive Director
26 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results for the year

Turnover of the Group for the year ended 31 December 2011 amounted to HK$137.1 million, which represented a decrease of 3% as compared to HK$141.6 million in 2010.

The consolidated loss of the Group for the year ended 31 December 2011 amounted to HK$55.3 million. This represented an increase of approximately HK$27.0 million or 95% as compared to the loss of HK$28.3 million in 2010.

Manufacturing business

The Group's manufacturing business continued engage in the manufacture and sales of healthcare and household products for the year ended 31 December 2011.

Turnover of the manufacturing business segment contracted 3% on a year-to-year basis to HK$137.1 million (2010: HK$141.6 million) mainly due to the decrease in sales volume and selling price of the products as a result of economic downturn and the European sovereign debt crisis, which created an uncertain consumer sentiment.

Cost of sales increased slightly by approximately HK$1.4 million from HK$116.5 million to HK$117.9 million despite the decreased in turnover mainly due to the continue appreciation of RMB and the minimum wages of Dongguan Guangdong Province PRC increased from RMB920 to RMB1,100 in March 2011.

As the decrease in the turnover was more than offset the decrease in its cost of sales, the gross profit margin of the manufacturing business was decreased by 4% from 18% in 2010 to 14% in 2011 and resulted in the decrease of gross profit by HK$6.0 million from HK$25.2 million in 2010 to HK$19.2 million in 2011.

Coal mining business

The Company had acquired the entire issued shares capital of Fastport Investments Holdings Limited ("Fastport") and its 99.98% indirect interest in the exploration and exploitation rights of a coal mine in the Republic of Indonesia (the "PT Bara Mine") on 13 July 2011 (the "Very Substantial Acquisition"). The PT Bara Mine is the project area with approximately 4,093 hectares, located within two administrative sub-districts of Central Kalimantan Province in the Republic of Indonesia, namely Dusun Tengah and Raren Batuah in Kabupaten Barito Timur, which is the subject of and to the operation production IUP *(Note 1)* license No.545 of 2009 issued to PT Bara by the Regent of East Barito. The license is valid for the period from 28 December 2009 to 23 December 2019 that will permit PT Bara to conduct coal development and production activities at the PT Bara Mine. In accordance with the VALMIN Code *(Note 2)* and to comply with

Note 1:	"IUP"	Izin Usaha Pertambangan
Note 2:	"VALMIN Code"	the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, adopted by the Australasian Institute of Mining and Metallurgy

MANAGEMENT DISCUSSION AND ANALYSIS

the requirements under Chapter 18 of the Listing Rules, a technical report on the PT Bara Mine, dated 2 June 2011 (the "Technical Report") prepared by Roma Oil and Mining Associates Limited ("Roma Technical") was set out in the Company's circular dated 16 June 2011 (the "Acquisition Circular"). As stated in the Technical Report, PT Bara Mine has approximately 8.7 million tonnes of Measured Resources, 11.5 million tonnes of Indicated Resources and 6.1 million tonnes of Inferred Resources of coal resources and the quality of which was assessed to be a medium ash sub-bituminous thermal coal (medium energy).

An updated review of the coal resources estimate as at 31 December 2011 was conducted by Roma Technical in February 2012 under the JORC Code *(Note 1)* which shows no material change for the PT Bara Mine since the last resource estimate done by them in June 2011. Set out below is the highlight of the review:

	Coal Resource Estimate (in thousand tonnes)			
JORC Category	**As at 2 June 2011**	**As at 31 December 2011**	**Change in %**	**Reason of change**
Measured	8,705	8,705	Nil	N/A
Indicated	11,537	11,537	Nil	N/A
Inferred	6,097	6,097	Nil	N/A
Total	26,339	26,339		

The Very Substantial Acquisition has formed the basis of the Group's mining business segment. However, no turnover was recorded for this business segment for 2011 as the PT Bara Mine was still in its development stage since the completion of the Very Substantial Acquisition in July 2011.

During 2011, approximately HK$17.3 million acquisition and exploration related expenditures were capitalized as costs of the mining rights.

Note:1 "JORC Code" Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, published by the Joint Ore Reserves committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia

Others

Other income was increased by HK$3.0 million due to fair value gain of HK$2.4 million on the call option assets and derivative component of the convertible bonds issued by the Company in July 2011 (the "Convertible Bonds 2011") and the reversal of certain over-provision for accrued expenses in previous years.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses of the Group were increased by HK$11.9 million mainly due to loss of HK$6.1 million on early partial redemption of the Convertible Bonds 2011 and increase in expenses related to our Indonesia office and other projects.

Finance costs were increased from HK$1.6 million in 2010 to HK$13.5 million in 2011 mainly due to the effective interest charges on liability component of the Convertible Bonds 2011 of HK$11.8 million.

BUSINESS OUTLOOK

Manufacturing business

Although a gradual return of confidence and recovery of investment and consumption are expected for the European Union countries in the second half of 2012 (Interim economic forecast of the European Commission, February 2012), we believe the global consumer confidence will remain weak in 2012 as trend of economic recovery still needs to be consolidated. In order to ensure that we are capable of maintaining our competiveness if the recovery continues, we will focus on new products development and improvement to existing products.

In addition, we will continue our effort to improve workers efficiency. According to the latest HKTDC Research survey dated 12 January 2012, 79% of Hong Kong companies saw rising labour costs in the fourth quarter of 2011 in the PRC. We expect such trend will continue in 2012 and remains as the biggest challenge to our manufacturing business.

Coal mining business

According to the development plan as disclosed in the Acquisition Circular, the production of the mine will commence 18 months from completion of the acquisition or in the first quarter of 2013 and therefore the coal mining business will not have any contribution to the Group's turnover and profit in 2012.

Since the completion of the acquisition, the Company had engaged a local mining consultant to assist the Company in a number of areas, including land compensation negotiation, planning for mine development, production and logistics. Based on the current progress and without any unforeseen circumstances, the Company does not anticipate any major delay in the development of the mine. The Company also does not expect any changes at this stage with respect to the estimated capital expenditure of US$6.8 million for the 12 months period from August 2011 to July 2012 which it still intends to finance through internal funds.

MANAGEMENT DISCUSSION AND ANALYSIS

In February 2012, following completion of the acquisition, the Indonesia Government enacted Indonesian Government Regulation No. 24 of 2012 regarding Amendments to Government Regulation No. 23 of 2010 regarding Implementation of Mineral and Coal Mining Business Activities ("GR 24"). GR 24 provides that 51% of shares in an operating mining company (i.e. PT Bara) must be owned by Indonesian shareholder(s) by the end of the 10th year from commencement of production (it is unclear from GR 24 if this is from commencement of any production or from commencement of commercial production and it is expected this is a matter on which mining companies will seek clarification). GR 24 provides for this to occur in stages from the 6th to the 10th year of commencement of production and thus will not affect the operation of PT Bara in short term.

Once shares have been divested to Indonesian shareholder(s), the proportion of equity held by the Indonesian shareholder(s) may not be diluted by further share issues.

GR 24 further provides for an order of priority for the prospective Indonesian shareholder(s) to whom shares should be offered, being (in order): (a) central Indonesian Government; (b) regional, provincial or regency government; (c) central Indonesian Government owned company; (d) regional government owned company; and (e) private company wholly owned by Indonesian shareholder(s).

As GR 24 only came into effect on 21 February 2012, there are currently no specific rules regarding pricing of the offer. It is expected that there will be further regulations to be released regarding this.

Notwithstanding that PT Bara is held through an intermediate Indonesian company, we expect that the requirements of GR 24 will apply to PT Bara. We will be considering the best way in which to address the requirements of GR 24. Although all possible effects of GR 24 on the PT Bara Mine in its medium to long term mode of operation are not known yet, our expansion into the coal mine industry as well as other minerals with the aim to broaden the Group's income base will still be our long-term strategy for enhancing shareholders' value.

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: HK$Nil).

LIQUIDITY AND FINANCIAL RESOURCES

Cash position

As at 31 December 2011, the Group had cash and bank deposits of HK$89.5 million (2010: HK$115.9 million) which included a pledged bank deposits of HK$3 million (2010: HK$1.5 million) and a foreign currency deposits denominated in Renminbi ("RMB") amounted to HK$0.77 million (2010: HK$0.47 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Current ratio

The Group had net current assets of HK$64.3 million as at 31 December 2011 (2010: HK$80.7 million). The current ratio being current assets over current liabilities decreased from approximately 1.8 in 2010 to 1.6 in 2011.

Debts and borrowings

As at 31 December 2011, the Group had total debts and borrowings of HK$442.6 million (2010: HK$29.3 million) including unsecured loan form financial institute and secured bank loan and factoring loan of HK$17.4 million (2010: HK$22.8 million), unsecured other loans of HK$6.5 million (2010: HK$6.5 million) and convertible of HK$418.7 million (2010: Nil).

Gearing ratio

The Group's gearing ratio, which is measured by net debts (being total of bank loan and convertible bonds less total cash) divided by equity attributable to equity holder of the Company as at 31 December 2011, has increased to 216% from a net cash position in 2010.

Financial resources

Despite that the Group sustained recurrent losses; the directors of the Company are in the opinion that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES, INTEREST RATES AND RELATED HEDGES

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars ("HKD"), United States dollars ("USD") and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The management will monitor the Group's foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise and appropriate instrument be available.

The interest rates profile of the Group's borrowings comprises a mixture of fixed and floating rates. The Group does not hedged against interest rates risk as the management does not foresee the impact of any fluctuation in interest rates to be material to the Group.

FUND RAISING ACTIVITIES

The Company carried out the following fund raising activities during the year under review:

(a) In February 2011, the Company completed a top-up placing and issued a total of 317,000,000 ordinary shares of HK$0.05 each at the placing prices of HK$0.106 per share. The Company had intended to apply the net proceeds of HK$32.3 million for financing the development of the coal mine after the completion of the Very Substantial Acquisition and/or for general working capital.

MANAGEMENT DISCUSSION AND ANALYSIS

(b) In June 2011, the Company completed a placing and issued a total of 760,000,000 shares of HK$0.05 each at the placing prices of HK$0.05 per share. The Company had intended to apply the net proceeds of HK$36.77 million for financing the development of the coal mine after the completion of the Very Substantial Acquisition and/or for general working capital.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

The Company had completed the Very Substantial Acquisition in July 2011. The consideration of HK$500 million was satisfied by the Company issuing two series of convertible bonds in favor of the vendor. The Very Substantial Acquisition was approved by the shareholders of the Company in a special general meeting held on 5 July 2011. For further details, please refer to the Company's circular and announcements dated 16 June 2011, 5 July 2011 and 14 July 2011 respectively.

Except as disclosed above, the Group had neither any material acquisition nor disposal in 2011.

MATERIAL CONTINGENT LIABILITIES

The Group is not aware of any material contingent liabilities as at 31 December 2011.

EMPLOYEES AND REMUNERATION POLICY

At the end of the reporting period, the Group had 26 employees (2010: 26) in Hong Kong, 646 employees (2010: 937) in PRC and 12 employees (2010: Nil) in Indonesia. Employees' remuneration are given and reviewed based on market norms, individual performance and experience. Awards and bonuses are considered based on the Group's business results and employees' individual merit.

The Company has an option scheme which was approved in a shareholders' special general meeting on 3 March 2010 (the "Share Option Scheme 2010"). Under the Share Option Scheme 2010, the Company may offer to any persons who the Board considers, in its sole discretion, have contributed or will contribute to the Group. Details of the Share Option Scheme 2010 were set out in the Company's circular on 11 February 2010. No share options were granted or exercised during the year under the Share Option Scheme 2010.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board of Directors of the Company (the "Board") commits to maintain and ensure high standards of corporate governance and has adopted the provisions contained in the Code on Governance Practices ("Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2011 except for the deviations as disclosed in this report. This report also outlines the main corporate governance processes and practices adopted by the Company with specific reference to the provisions of the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard as set out in the Model Code during the year ended 31 December 2011.

BOARD OF DIRECTORS

The Company is led and controlled through the Board. Apart from its statutory responsibilities, the Board sets the Group's overall business and financial strategies as well as setting policies on various matters including major investments, key operational targets and financial control.

The Board comprises ten members, seven of whom are Executive Directors including the Chairman of the Board and three are Independent Non-executive Directors ("INEDs"). All three INEDs possess recognized professional qualifications in accounting. The profiles of the Directors' qualifications and experience are set out on pages 3 to 8 of this annual report. The Board is of the view that its current composition provides the necessary skill and experience for the requirements of the Group's business.

All INEDs have confirmed in writing to the Company that they meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2011, the Company has complied with all provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules except for the following:

(a) Provision A.4.1 stipulates that independent non-executive directors ("INEDs") should be appointed for a specific term and subject to re-election. During the year under reviewed, all INEDs of the Company were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Bye-laws of the Company except for Mr. Lam Ming On who was appointed for initial term of one year commenced on 1 December 2011. As Directors' appointment will be reviewed when they are due for re-election thus the Company is of the view that this meets the same objectives of the said code provision.

(b) Provision E.1.2 requires the chairman of the board should attend the annual general meeting. Mr. Hu Xiao, who was the Chairman of the Board at that time, did not attend the annual general meeting held on 20 May 2011 (the "Annual General Meeting") due to his other commitment. Mr. Liu Liyang, the Deputy Chairman of the Board, was available to answer questions at the Annual General Meeting instead.

AUDIT COMMITTEE

The Company's Audit Committee was established in December 1999. The Audit Committee comprises Mr. Lam Bing Kwan, Mr. Wong Man Chung, Francis and Mr. Lam Ming On being all the three INEDs and Mr. Wong Man Chung, Francis is the Chairman of the Audit Committee. The Audit Committee has adopted terms of reference which are in line with the Code. The primary function of the Audit Committee is to review and monitor the Group's financial reporting process and internal controls. It is also responsible for making recommendation to the Board for the appointment, reappointment or removal of the external auditor.

During the year ended 31 December 2011, the Audit Committee had reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the audited financial statements and unaudited interim financial statements. The Audit Committee also reviewed the resources, qualifications and experience of staffs of the Group's accounting and financial reporting function, and their training and budget, and was satisfied with their adequacy.

REMUNERATION COMMITTEE

The Company's Remuneration Committee was established in August 2005. It comprises all three INEDs Mr. Lam Bing Kwan, Mr. Wong Man Chung, Francis, Mr. Lam Ming On and two Executive Directors Mr. Tam Lup Wai, Franky and Mr. Liu Liyang. Mr. Lam Bing Kwan is the Chairman of the Remuneration Committee and the Remuneration Committee has adopted terms of reference which are in line with the Code. The Remuneration Committee is responsible for

CORPORATE GOVERNANCE REPORT

making recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. The Remuneration Committee has assessed the performance of the executive directors and considered the remuneration package of executive directors by reference to the prevailing packages with companies listed on the Main board of the Stock Exchange. Details of the remuneration of directors are disclosed on an individual basis and are set out in note 12 to the financial statements.

BOARD, AUDIT COMMITTEE AND REMUNERATION COMMITTEE MEETING

The total number of the meetings and the individual attendance of each Director during the year ended 31 December 2011 were as follows:

Directors	Board Meeting	Audit Committee	Remuneration Committee
Executive directors			
Mr. Tam Lup Wai, Franky *(Chairman)*	4/4	–	1/1
Mr. Liu Liyang *(CEO and Deputy Chairman)*	4/4	–	1/1
Mr. Hu Xiao *(Note 1)*	2/4	–	–
Mr. Jiang Chunming *(Note 2)*	0/4	–	–
Madam Lu Mujuan *(Note 2)*	0/4	–	–
Mr. Luo Xiaohong *(Note 2)*	0/4	–	–
Mr. Siswo Awaliyanto *(Note 2)*	0/4	–	–
Mr. Wan Shouquan *(Note 2)*	0/4	–	–
Independent non-executive directors			
Mr. Lam Bing Kwan *(Chairman of Remuneration Committee)*	4/4	2/2	1/1
Mr. Lam Ming On *(Note 3)*	0/4	0/2	0/1
Mr. Wong Man Chung, Francis *(Chairman of Audit Committee)*	4/4	2/2	1/1
Mr. Yeung King Wah *(Note 4)*	4/4	2/2	1/1

Note 1: Resigned on 21 July 2011

Note 2: Appointed on 20 December 2011

Note 3: Appointed on 1 December 2011

Note 4: Resigned on 1 December 2011

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparing of the financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results, and cash flows for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The directors have selected suitable accounting policies and applied them consistently, made judgments and estimates on a going concern basis.

Despite that the Group sustained recurrent losses, the directors of the Company are in the opinion that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

AUDITOR'S RESPONSIBILITIES AND REMUNERATION

The statement of RSM Nelson Wheeler regarding their report responsibilities is set out in the Independent Auditor's Report on pages 26 to 27 of this annual report. During the year, the Group engaged RSM Nelson Wheeler to perform audit and non-audit related services and incurred audit and non-audit service fees of HK$700,000 (2010: HK$620,000) and HK$452,195 (2010: HK$215,500) respectively.

INTERNAL CONTROLS

The Board has the overall responsibilities for the Group's internal control system and has adopted a set of internal controls, which facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with relevant laws and regulations. The system is designed to minimize risks of failure to achieve corporate objectives.

The Company had reviewed the effectiveness of the Group's certain internal control system in 2011 and had reported the results to the Audit Committee.

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting provides a useful channel for shareholders to communicate with the Board. All shareholders have 21 days' notice of annual general meeting at which directors are available to answer questions on the Company's affair.

Separate resolutions are proposed at the annual general meeting on each substantially separate issue, including the election of individual director. Pursuant to Rule 13.39 of the Listing Rule, any votes of the shareholders at a general meeting must be taken by poll.

REPORT OF THE DIRECTORS

The directors present their annual report together with the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 34 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the year ended 31 December 2011 are set out in note 8 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	24%	–
Five largest customers in aggregate	77%	–
The largest supplier	–	6%
Five largest suppliers in aggregate	–	22%

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interesting in these major customers and suppliers.

FINANCIAL STATEMENTS

The Group's results for the year ended 31 December 2011 and the state of the Group's affairs as at that date are set out in the financial statements on pages 28 to 95.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2011.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year ended 31 December 2011 are set out in note 32 to the financial statements and the consolidated statement of changes in equity on page 31 of this annual report.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2011 are set out in note 17 to the financial statements.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

Particulars of the Company's subsidiaries, associates and jointly controlled entity are set out in notes 34, 18 and 19 respectively to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2011 are set out in note 30 to the financial statements.

SHARE OPTIONS AND CONVERTIBLE BONDS

Details of share options and convertible bonds in issued and their subsequent conversion are set out in notes 29 and 28 to the financial statements respectively.

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Tam Lup Wai, Franky *(Chairman)*
Mr. Liu Liyang *(CEO and Deputy Chairman)*
Mr. Hu Xiao *(Resigned on 21 July 2011)*
Mr. Jiang Chunming *(Appointed on 20 December 2011)*
Madam Lu Mujuan *(Appointed on 20 December 2011)*
Mr. Luo Xiaohong *(Appointed on 20 December 2011)*
Mr. Siswo Awaliyanto *(Appointed on 20 December 2011)*
Mr. Wan Shouquan *(Appointed on 20 December 2011)*

Independent non-executive directors

Mr. Lam Bing Kwan
Mr. Lam Ming On *(Appointed on 1 December 2011)*
Mr. Wong Man Chung, Francis
Mr. Yeung King Wah *(Resigned on 1 December 2011)*

Pursuant to Bye-law 86(2) of the Company's Bye-laws, Mr. Jiang Chunming, Madam Lu Mujuan, Mr. Luo Xiaohong, Mr. Siswo Awaliyanto Mr. Wan Shouquan and Mr. Lam Ming On will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

REPORT OF THE DIRECTORS

Under the existing Bye-laws, all the Directors are subject to retirement by rotation and re-election at the annual general meeting. In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Mr. Liu Liyang and Mr. Wong Man Chung, Francis will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company confirmed that it has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 and the Company still considers the independent non-executive directors to be independent.

DIRECTORS' SERVICE CONTRACT

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract, which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, none of the directors nor their associates had any interests and short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEME

The Company has an option scheme which was approved in a shareholders' special general meeting on 3 March 2010 (the "Share Option Scheme 2010"). Under the Share Option Scheme 2010, the Company may offer to any persons who the Board considers, in its sole discretion, have contributed or will contribute to the Group. Details of the Share Option Scheme 2010 were set out in the Company's circular on 11 February 2010. No share options were granted or exercised during the year under the Share Option Scheme 2010.

Save as disclosed above, none of the directors or chief executive of the Company or their spouses or children aged below 18 had any right to subscribe for equity or debt securities of the Company or had exercised any such right during the year under review.

REPORT OF THE DIRECTORS

DIRECTORS' EMOLUMENTS

Particulars of the Directors' emoluments disclosed pursuant to section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 12 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, the following persons had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Long positions of substantial shareholders in the shares and underlying shares

Name Shareholder	Capacity/Nature of interests	Number of shares held	Number of shares held shares held	% of total issued shares
Early State Enterprises Limited	Beneficial owner	37,558,960	–	20.54%
Mr. Hu Xiao *(Note 1)*	Interest in controlled corporation	37,558,960	–	20.54%

Note 1: Based on the filings made under the Securities and Futures Ordinance by Mr. Lee Fook Kheun ("Mr. Lee"), Early State Enterprises Limited ("Early State") and Mr. Hu Xiao ("Mr. Hu"), which were received by the Company on 12 January 2012, Mr. Hu had on 10 January 2012 sold to Mr. Lee at a consideration of US$968,000 the entire shareholding of Early State Enterprises Limited, which held 37,558,960 shares of the Company.

Save as disclosed above, as at 31 December 2011, the Company according to the records required to be kept by the Company under Section 336 of the SFO, there was no person who had any interest or short positions in the shares or underlying shares of the Company.

DIRECTORS' INTERESTS IN CONTRACT

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2011.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

The Company's share premium account, with a balance of HK$1,556,959,000 as at 31 December 2011, may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares.

The Company's contributed surplus account, with a balance of HK$237,767,000 as at 31 December 2011, is distributable subject to satisfaction of certain solvency requirements and the Company may apply the contributed surplus in any manner not prohibited by the Companies Act and the Bye-law of the Company.

Save as disclosed above, the Company had no reserves available for distribution to shareholders of the Company, as computed in accordance with the Companies Act 1981 of Bermuda.

PRE-EMPTIVE RIGHTS

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

CONNECTED TRANSACTIONS

There were no material transactions that need to be disclosed as connected transactions in accordance with the requirement of the Listing Rules.

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

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

LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Particulars of loans from banks and other financial institutions of the Group as at 31 December 2011 are set out in note 25 to the financial statements.

FIVE YEAR 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 96 of this annual report.

PENSION SCHEME

The Group operates a mandatory provident fund scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer makes contributions to the scheme at 5%-10% and employees are required to make 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Mandatory contributions to the scheme vest immediately.

REPORT OF THE DIRECTORS

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans ("Plans") organized by local authorities for the Group's employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the Plans. The Group has no other material obligation for the payment of pension benefits associated with these Plans beyond the annual contributions described above.

Details of the pension scheme contributions of the employees, net of forfeited contributions, which have been dealt with in the consolidated statement of comprehensive income for the year ended 31 December 2011, are set out in note 29 to the financial statements.

CORPORATE GOVERNANCE

The Company complied with all requirements set out in the Code except for the deviations disclosed in the "Corporate Governance Report" of this annual report.

AUDIT COMMITTEE

Pursuant to the Listing Rules, an Audit Committee was established on 28 December 1999 with written terms of reference. As at the date of this annual report, the Audit Committee comprising three independent non-executive directors, namely Mr. Wong Man Chung, Francis (Chairman of the Audit Committee), Mr. Lam Bing Kwan and Mr. Lam Ming On. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of the annual report, there was a sufficient public float of the Company.

AUDITOR

The financial statements of the Company for the year under review have been audited by RSM Nelson Wheeler, who will retire and, being eligible, offer themselves for re-appointment at the for the coming annual general meeting.

By Order of the Board
Tam Lup Wai, Franky
Chairman and Executive Director

Hong Kong, 26 March 2012

INDEPENDENT AUDITOR'S REPORT

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

TO THE SHAREHOLDERS OF eFORCE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of eForce Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 95, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 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, and 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda 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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY *(Continued)*
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 auditor's judgement, 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 auditor considers internal control relevant to the entity's preparation of 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 as at 31 December 2011 and of the Group's results 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.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong, 26 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Turnover	6	**137,061**	141,627
Cost of sales		**(117,888)**	(116,451)
Gross profit		**19,173**	25,176
Other income	7	**5,718**	2,746
Distribution costs		**(3,003)**	(3,110)
Administrative expenses		**(63,435)**	(51,549)
Loss from operations		**(41,547)**	(26,737)
Finance costs	9	**(13,469)**	(1,616)
Loss before tax		**(55,016)**	(28,353)
Income tax (expense)/credit	10	**(299)**	21
Loss for the year attributable to owners of the Company	11	**(55,315)**	(28,332)
Other comprehensive income:			
Exchange differences on translating foreign operations		**1,927**	1,128
Gains on property revaluation		**7,692**	2,546
Other comprehensive income for the year, net of tax	14	**9,619**	3,674
Total comprehensive income for the year attributable to owners of the Company		**(45,696)**	(24,658)
		HK$	*HK$*
Loss per share	15		(restated)
Basic		**(0.33)**	(0.21)
Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Exploration and evaluation assets	16	**461,406**	–
Property, plant and equipment	17	**55,233**	44,763
Investments in associates	18	**–**	–
Investment in a jointly controlled entity	19	**(40)**	(40)
Other non-current assets	20	**–**	–
		516,599	44,723
Current assets			
Inventories	21	**19,829**	18,106
Trade and other receivables	22	**27,820**	46,225
Call option assets of convertible bonds	28	**37,765**	–
Pledged bank deposits	23	**3,000**	1,500
Bank and cash balances	23	**86,529**	114,439
		174,943	180,270
Current liabilities			
Trade and other payables	24	**(64,248)**	(65,775)
Derivative component of convertible bonds	28	**(11,081)**	–
Liability component of convertible bonds	28	**(7,000)**	–
Borrowings	25	**(17,407)**	(22,837)
Unsecured other loans	26	**(6,500)**	(6,500)
Current tax liabilities		**(4,442)**	(4,434)
		(110,678)	(99,546)
Net current assets		**64,265**	80,724
Total assets less current liabilities		**580,864**	125,447

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Deferred tax liabilities	27	**(5,558)**	(2,876)
Liability component of convertible bonds	28	**(411,678)**	–
		(417,236)	(2,876)
NET ASSETS		**163,628**	122,571
Capital and reserves			
Share capital	30	**183**	174,746
Reserves	32	**163,445**	(52,175)
TOTAL EQUITY		**163,628**	122,571

Approved by the Board of Directors on 26 March 2012.

Tam Lup Wai, Franky
Director

Liu Liyang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital *HK$'000*	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Foreign currency translation reserve *HK$'000*	Warrant reserve *HK$'000*	Property revaluation reserve *HK$'000*	Convertible bonds equity reserves *HK$'000*	Accumulated losses *HK$'000*	Total equity *HK$'000*
At 1 January 2010	158,896	1,510,456	–	(5,211)	24,226	6,082	–	(1,594,335)	100,114
Total comprehensive income for the year	–	–	–	1,128	–	2,546	–	(28,332)	(24,658)
Issue of shares on placement	15,850	31,265	–	–	–	–	–	–	47,115
Changes in equity for the year	15,850	31,265	–	1,128	–	2,546	–	(28,332)	22,457
At 31 December 2010	174,746	1,541,721	–	(4,083)	24,226	8,628	–	(1,622,667)	122,571
At 1 January 2011	174,746	1,541,721	–	(4,083)	24,226	8,628	–	(1,622,667)	122,571
Total comprehensive income for the year	–	–	–	1,927	–	7,692	–	(55,315)	(45,696)
Issue of shares on subscription and placement *(notes 30(a) & (b))*	53,850	15,238	–	–	–	–	–	–	69,088
Recognition of equity component of convertible bonds *(note 28(a))*	–	–	–	–	–	–	17,665	–	17,665
Transfer *(note 30(e))*	(228,413)	–	228,413	–	–	–	–	–	–
Changes in equity for the year	(174,563)	15,238	228,413	1,927	–	7,692	17,665	(55,315)	41,057
At 31 December 2011	183	1,556,959	228,413	(2,156)	24,226	16,320	17,665	(1,677,982)	163,628

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(55,016)**	(28,353)
Adjustments for:		
Depreciation	**7,747**	6,422
Fair value gain on call option assets and derivative component of convertible bonds	**(2,350)**	–
Finance costs	**13,469**	1,616
Loss on redemption of convertible bonds	**6,149**	–
Interest income	**(261)**	(132)
Net gain on disposals of property, plant and equipment	**(444)**	(200)
Reversal of over-provision for accrued expenses in previous years	**(1,254)**	–
Written back of doubtful debts	**(127)**	–
Written off of property, plant and equipment	**730**	20
Operating loss before working capital changes	**(31,357)**	(20,627)
Increase in inventories	**(979)**	(5,935)
Decrease/(increase) in trade debtors and bills receivables	**6,873**	(15,419)
Decrease/(increase) in other debtors, deposits and prepayments	**11,826**	(12,022)
Increase in amount due from a jointly controlled entity	**(3)**	(7)
(Decrease)/increase in trade creditors and bills payables	**(5,293)**	6,887
Increase in other creditors and accrued charges	**4,187**	4,474
Increase/(decrease) in amounts due to directors	**119**	(205)
Cash used in operations	**(14,627)**	(42,854)
Income taxes paid	**(310)**	(11)
Net cash used in operating activities	**(14,937)**	(42,865)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Transaction costs for exploration and evaluation assets	(17,279)	–
Purchases of property, plant and equipment	(8,125)	(8,080)
Proceeds from sale of property, plant and equipment	1,836	2,901
Decrease in pledged bank deposits	(1,500)	–
Interest received	261	132
Net cash used in investing activities	(24,807)	(5,047)
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings	61,995	61,480
Repayment of borrowings	(68,059)	(50,389)
Proceeds from issue of shares	69,088	47,115
Redemption of convertible bonds	(50,042)	–
Interest paid	(1,694)	(1,314)
Net cash generated from financing activities	11,288	56,892
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(28,456)	8,980
Effect of foreign exchange rate changes	546	(433)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	114,439	105,892
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	86,529	114,439
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	86,529	114,439

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Suite 3008, Man Yee Building, 68 Des Voeux Road Central, Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 34 to the financial statements.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, call option assets and derivative component of convertible bonds which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Consolidation *(Continued)*

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

(b) Business combination

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in a jointly controlled entity is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the jointly controlled entity in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the jointly controlled entity's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a jointly controlled entity's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity. If the jointly controlled entity subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a jointly controlled entity that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that jointly controlled entity and (ii) the Group's share of the net assets of that jointly controlled entity plus any remaining goodwill relating to that jointly controlled entity and any related accumulated foreign currency translation reserve.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(d) Joint venture *(Continued)*

Unrealised profits on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Foreign currency translation *(Continued)*

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

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

(f) Property, plant and equipment

Land and buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment *(Continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Revaluation increases of land and buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the property revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the property revaluation reserve are charged against the property revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued land and building, the attributable revaluation increases remaining in the property revaluation reserve is transferred directly to retained profits.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Land and buildings	30 years
Leasehold improvements	Over the unexpired term of the lease
Plant and machinery	5 years
Furniture, fixtures, office equipment and motor vehicles	3 to 5 years
Moulds and tools	5 years

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less accumulated impairment losses. Exploration and evaluation assets include the cost of exploration and exploitation rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources. When the technical feasibility and commercial viability of extracting mineral resources become demonstrable, previously recognised exploration and evaluation assets are reclassified as intangible assets and property, plant and equipment. These assets are assessed for impairment annually.

(h) Impairment of exploration and evaluation assets

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

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

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

– exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; or

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

An impairment loss is recognised in the consolidated statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(j) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(n) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(o) Financial liabilities and equity instruments

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

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Convertible bonds

(i) Compound instrument

Convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a call option asset, a liability and an equity component. At the date of issue, the fair value of the call option assets is determined using an option pricing model; and the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the call option assets and liability components, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity as convertible bonds equity reserve. The call option assets component is measured at fair value with gains and losses recognised in profit or loss. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the call option assets, liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

(ii) Combined instrument

Convertible bonds which entitle the holder to convert the bonds into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consist of a call option asset, a derivative and a liability component. At the date of issue, the fair value of the call option assets and derivative components are determined using an option pricing model; and these amounts are carried as call option assets and derivative until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The call option assets and derivative components are measured at fair value with gains and losses recognised in profit or loss.

Transaction costs are apportioned between the call option assets, derivative and liability components of the convertible bonds based on the allocation of proceeds to the call option assets, derivative and liability components on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of manufactured goods and trading of raw materials and moulds are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

(t) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to employees in Hong Kong. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

Subsidiaries incorporated in the People's Republic of China ("PRC") participate in the retirement schemes operated by the local authorities for the Group's employees in the PRC. Contributions to these schemes are charged to profit or loss when incurred.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(t) **Employee benefits** *(Continued)*

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(u) **Borrowing costs**

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

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

(v) **Taxation**

Income tax represents the sum of the current tax and deferred tax.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Taxation *(Continued)*

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except exploration and evaluation assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(y) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(y) Provisions and contingent liabilities *(Continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(z) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. **CRITICAL JUDGEMENTS AND KEY ESTIMATES**

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

(a) Split of land and building elements

The Group determines that the lease payments cannot be allocated reliably between the land and building elements. Accordingly the entire lease of land and buildings is classified as a finance lease and included under property, plant and equipment.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Fair values of land and buildings

The Group appointed an independent professional valuer to assess the fair values of the land and buildings. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(d) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(e) Allowance for slow-moving inventories

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(f) Fair value of call option assets and derivative component of convertible bonds

As disclosed in note 28 to the financial statements, the fair values of the call option assets and derivative component of the convertible bonds at the date of issue and the end of the reporting period were determined using option pricing models. Application of option pricing models requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the call option assets and derivative component, the expected volatility of the share prices of the Company and the potential dilution in the share prices of the Company. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the call option assets and derivative component in the period in which such determination is made.

(g) Impairment of exploration and evaluation assets

The Group tests annually whether exploration and evaluation assets have suffered any impairment in accordance with the accounting policy stated in note 3(h) to the financial statements. An impairment loss is recognised when the carrying amount of exploration and evaluation assets exceeds their recoverable amount. In determining the recoverable amount, certain estimates have been involved based on the events or charges in circumstances as stated in the accounting policy.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars ("HKD"), United States dollars ("USD") and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Foreign currency risk *(Continued)*

At 31 December 2011, if the HKD had weakened 1 per cent against the USD with all other variables held constant, consolidated loss after tax for the year would have been approximately HK$157,000 (2010: approximately HK$147,000) lower, arising mainly as a result of the net foreign exchange gain on receivables, payables and borrowings denominated in the USD. If the HKD had strengthened 1 per cent against the USD with all other variables held constant, consolidated loss after tax for the year would have been approximately HK$157,000 (2010: approximately HK$147,000) higher, arising mainly as a result of the net foreign exchange loss on receivables, payables and borrowings denominated in the USD.

(b) Price risk

The Group's call option assets and derivative component of convertible bonds are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk.

At 31 December 2011, if the expected volatility had increased by 1% with all other variables held constant, the consolidated loss after tax for the year would decrease by approximately HK$3,087,000 (2010: Nil) arising from changes in fair value of the call option assets of convertible bonds.

If the expected volatility had decreased by 1% with all other variables held constant, the consolidated loss after tax for the year would increase by approximately HK$3,086,000 (2010: Nil), arising from changes in fair value of the call option assets of convertible bonds.

At 31 December 2011, if the share price of the Company and its volatility had increased by 5% with all other variables held constant and the derivative component moved according to the historical correlation with the share price of the Company, the consolidated loss after tax for the year would increase by approximately HK$640,000 (2010: Nil) arising from changes in fair value of the derivative components of convertible bonds.

If the share price of the Company and its volatility had decreased by 5% with all other variables held constant and the derivative component moved according to the historical correlation with the share price of the Company, the consolidated loss after tax for the year would decrease by approximately HK$668,000 (2010: Nil), arising from changes in fair value of derivative component of convertible bonds.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk

The carrying amount of the bank and cash balances and trade and other receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has significant concentration of credit risk to its trade receivables as one of the Group's largest customer contributed over approximately 24% of the turnover for the year and shared over approximately 40% of the trade and bills receivables at the end of the reporting period. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to non-recoverable of the receivables and there is no recent history of default for the customer.

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year *HK$'000*	**Between 1 and 2 years** *HK$'000*	**Between 2 and 5 years** *HK$'000*	**Over 5 years** *HK$'000*
At 31 December 2011				
Borrowings	17,721	–	–	–
Unsecured other loans	6,760	–	–	–
Trade and other payables	64,248	–	–	–
Liability component of convertible bonds	15,000	15,000	470,000	–
At 31 December 2010				
Borrowings	23,107	–	–	–
Unsecured other loans	6,760	–	–	–
Trade and other payables	65,775	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits, borrowings, unsecured other loans and liability component of convertible bonds.

Unsecured other loans and liability component of convertible bonds are arranged at fixed interest rates and expose the Group to fair value interest rate risks. Other bank deposits and borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

At 31 December 2011, if interest rates at that date had been 50 basis points (2010: 10 basis points) lower with all other variables held constant, consolidated loss after tax for the year would have been approximately HK$278,000 (2010: approximately HK$49,000) higher, arising as a result of lower interest income from bank deposits. If interest rates had been 50 basis points (2010: 50 basis points) higher with all other variables held constant, consolidated loss after tax for the year would have been approximately HK$278,000 (2010: approximately HK$246,000) lower, arising as a result of higher interest income from bank deposits.

(f) Categories of financial instruments at 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
Financial assets:		
Financial assets at fair value through profit or loss	**37,765**	–
Loans and receivables (including cash and cash equivalents)	**117,349**	162,164
Financial liabilities:		
Financial liabilities at fair value through profit or loss	**11,081**	–
Financial liabilities at amortised cost	**506,833**	95,112

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Disclosures of level in fair value hierarchy at 31 December 2011:

	Fair value measurement using:			**Total**
Description	**Level 1**	**Level 2**	**Level 3**	**2011**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at fair value through profit or loss				
Call option assets of convertible bonds	**–**	**37,765**	**–**	**37,765**

	Fair value measurement using:			Total
Description	Level 1	Level 2	Level 3	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss				
Call option assets of convertible bonds	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(g) Fair values *(Continued)*

Disclosures of level in fair value hierarchy at 31 December 2011: *(Continued)*

Description	**Fair value measurement using: Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total 2011** *HK$'000*
Financial liabilities at fair value through profit or loss				
Derivative component of convertible bonds	**–**	**11,081**	**–**	**11,081**

Description	Fair value measurement using: Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total 2010 *HK$'000*
Financial liabilities at fair value through profit or loss				
Derivative component of convertible bonds	–	–	–	–

6. TURNOVER

The Group's turnover represents the aggregate of sales value of goods supplied to customers less goods returned, trade discounts and sales tax. The amount of revenue recognised in turnover during the year represents manufacture and sale of healthcare and household products.

7. OTHER INCOME

	2011 *HK$'000*	2010 *HK$'000*
Fair value gain on call option assets and derivative component of convertible bonds	**2,350**	–
Income from moulds sales, net	**195**	1,049
Income from scrap sales	**539**	690
Interest income	**261**	132
Net gain on disposals of property, plant and equipment	**444**	200
Rental income	**–**	2
Reversal of over-provision for accrued expenses in previous years	**1,254**	–
Written back of doubtful debts	**127**	–
Others	**548**	673
	5,718	2,746

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. SEGMENT INFORMATION

The Group is engaged in the manufacture and sales of healthcare and household products and coal mining business. Accordingly, there are two reportable segments of the Group. For the year ended 31 December 2011, no contribution was made by coal mining business segment.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profits or losses, segment assets and segment liabilities do not include results, assets and liabilities from corporate income and expenses, corporate assets and liabilities.

Information about reportable segment profit or loss, assets and liabilities:

	Coal mining business *HK$'000*	Health care and household product *HK$'000*	Total *HK$'000*
Year ended 31 December 2011			
Turnover	–	137,061	137,061
Segment loss	15,752	13,304	29,056
Interest income	–	2	2
Finance costs	11,775	1,386	13,161
Depreciation	–	6,673	6,673
Income tax expense	–	299	299
Additions to segment non-current assets	461,406	6,141	467,547
As at 31 December 2011			
Segment assets	499,171	104,360	603,531
Segment liabilities	497,283	84,512	581,795
Investments in associates	–	–	–
Investment in a jointly controlled entity	–	(40)	(40)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. SEGMENT INFORMATION *(Continued)*

Information about reportable segment profit or loss, assets and liabilities: *(Continued)*

	Coal mining business *HK$'000*	Health care and household product *HK$'000*	Total *HK$'000*
Year ended 31 December 2010			
Turnover	–	141,627	141,627
Segment loss	–	28,332	28,332
Interest income	–	132	132
Finance costs	–	1,616	1,616
Depreciation	–	6,422	6,422
Income tax credit	–	21	21
Additions to segment non-current assets	–	8,080	8,080
As at 31 December 2010			
Segment assets	–	224,993	224,993
Segment liabilities	–	102,422	102,422
Investments in associates	–	–	–
Investment in a jointly controlled entity	–	(40)	(40)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. SEGMENT INFORMATION *(Continued)*

Reconciliations of reportable segment, profit or loss, assets and liabilities:

	2011 HK$'000	2010 HK$'000
Profit or loss		
Total loss of reportable segments	**29,056**	28,332
Unallocated corporate results	**26,259**	–
Consolidated loss for the year	**55,315**	28,332
Assets		
Total assets of reportable segments	**603,531**	224,993
Unallocated corporate assets	**88,429**	–
Elimination of intersegment assets	**(418)**	–
Consolidated total assets	**691,542**	224,993
Liabilities		
Total liabilities of reportable segments	**581,795**	102,422
Unallocated corporate liabilities	**29,674**	–
Elimination of intersegment liabilities	**(83,555)**	–
Consolidated total liabilities	**527,914**	102,422

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's business is managed on a worldwide basis, but participates in nine principal economic environments.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue		**Non-current assets**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
France	**12,627**	11,646	**–**	–
Germany	**26,580**	19,579	**–**	–
Indonesia	**–**	–	**461,406**	–
Italy	**9,473**	10,262	**–**	–
Japan	**7,325**	6,267	**–**	–
The People's Republic of China (the "PRC")	**31,085**	30,203	**52,442**	42,925
United Kingdom	**6,773**	3,414	**–**	–
United States of America	**19,425**	32,306	**–**	–
Hong Kong and others	**23,773**	27,950	**2,751**	1,798
Consolidated total	**137,061**	141,627	**516,599**	44,723

In presenting the geographical information, revenue is based on the locations of the customers.

Turnover from major customers

	2011	2010
	HK$'000	*HK$'000*
Health care and household product		
Customer a	**33,181**	34,194
Customer b	**31,512**	34,028
Customer c	**25,651**	28,422

No turnover has been incurred for coal mining business for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. FINANCE COSTS

	2011 *HK$'000*	2010 *HK$'000*
Effective interest expenses on liability component of convertible bonds wholly repayable within five years	**11,775**	–
Interest on bank loans	**1,261**	1,022
Interest on other loans wholly repayable within five years	**433**	594
	13,469	1,616

10. INCOME TAX EXPENSE/(CREDIT)

	2011 *HK$'000*	2010 *HK$'000*
Current tax – PRC Enterprise Income Tax		
Provision for the year	**–**	85
Under/(over)-provision in prior years	**299**	(106)
	299	(21)

No provision for Hong Kong Profits Tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. INCOME TAX EXPENSE/(CREDIT) *(Continued)*

The reconciliation between the income tax expense/(credit) and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2011 *HK$'000*	2010 *HK$'000*
Loss before tax	**(55,016)**	(28,353)
Tax at the domestic income tax rate of 16.5% (2010: 16.5%)	**(9,078)**	(4,678)
Tax effect of income that is not taxable	**(408)**	(42)
Tax effect of expenses that are not deductible	**10,640**	4,815
Tax effect of temporary differences not recognised	**(49)**	(88)
Tax effect of tax losses not recognised	**12**	241
Under/(over)-provision in prior years	**299**	(106)
Effect of different tax rates of subsidiaries	**(1,117)**	(163)
Income tax expense/(credit)	**299**	(21)

11. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	2011 *HK$'000*	2010 *HK$'000*
Depreciation	**7,747**	6,422
Loss on redemption of convertible bonds	**6,149**	–
Operating lease charges in respect of land and buildings	**6,310**	5,665
Research and development costs *	**3,279**	2,288
Auditor's remuneration	**700**	620
Cost of inventories sold #	**117,888**	116,451
Written off of property, plant and equipment	**730**	20
Staff costs including directors' remuneration		
Salaries, bonus and allowances	**51,973**	46,871
Retirement benefit scheme contributions	**302**	301
	52,275	47,172

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. LOSS FOR THE YEAR *(Continued)*

* Research and development costs include staff costs of approximately HK$2,950,000 (2010: approximately HK$2,050,000) which are included in the amount disclosed separately above.

\# Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately HK$30,934,000 (2010: approximately HK$26,969,000), which are included in the amounts disclosed separately above.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

For the year ended 31 December 2011

	Fees *HK$'000*	Basic salaries, allowances and benefits in kind *HK$'000*	Discretionary bonus *HK$'000*	Share-based payments *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Name of director						
Executive directors						
Mr. Hu Xiao *(note (a))*	–	–	–	–	–	–
Mr. Jiang Chunming *(note (b))*	–	32	–	–	–	32
Mr. Liu Liyang *(note (c))*	–	3,000	–	–	12	3,012
Madam Lu Mujuan *(note (b))*	–	5	–	–	–	5
Mr. Luo Xiaohong *(note (b))*	–	7	–	–	–	7
Mr. Siswo Awaliyanto *(note (b))*	–	8	–	–	–	8
Mr. Tam Lup Wai, Franky	–	1,365	–	–	12	1,377
Mr. Wan Shouquan *(note (b))*	–	5	–	–	–	5
Independent non-executive directors						
Mr. Lam Bing Kwan	90	–	–	–	–	90
Mr. Lam Ming On *(note (d))*	10	–	–	–	–	10
Mr. Wong Man Chung, Francis	120	–	–	–	–	120
Mr. Yeung King Wah *(note (e))*	110	–	–	–	–	110
	330	4,422	–	–	24	4,776

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

For the year ended 31 December 2010

	Fees *HK$'000*	Basic salaries, allowances and benefits in kind *HK$'000*	Discretionary bonus *HK$'000*	Share-based payments *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Name of director						
Executive directors						
Mr. Hu Xiao *(note (a))*	–	–	–	–	–	–
Mr. Liu Liyang *(note (c))*	–	1,875	–	–	5	1,880
Mr. Tam Lup Wai, Franky	–	1,339	–	–	12	1,351
Independent non-executive directors						
Mr. Lam Bing Kwan	60	–	–	–	–	60
Mr. Wong Man Chung, Francis	120	–	–	–	–	120
Mr. Yeung King Wah *(note (e))*	120	–	–	–	–	120
	300	3,214	–	–	17	3,531

Notes:

(a) Resigned on 21 July 2011

(b) Appointed on 20 December 2011

(c) Appointed on 19 August 2010

(d) Appointed on 1 December 2011

(e) Resigned on 1 December 2011

During the year, no share options were granted to the directors.

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2010: HK$Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

The five highest paid individuals in the Group during the year included two (2010: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2010: three) individuals are set out below:

	2011	2010
	HK$'000	*HK$'000*
Basic salaries and allowances	**4,128**	4,103
Retirement benefit scheme contributions	**29**	48
	4,157	4,151

The emoluments fell within the following bands:

	Number of individuals	
	2011	2010
HK$Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	1
	3	3

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the year ended 31 December 2011 (2010: HK$Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income for the year

	2011			2010		
	Amount before tax *HK$'000*	Tax *HK$'000*	Amount after tax *HK$'000*	Amount before tax *HK$'000*	Tax *HK$'000*	Amount after tax *HK$'000*
Exchange differences on translating foreign operations	**1,927**	**–**	**1,927**	1,128	–	1,128
Gains on property revaluation *(note 27)*	**10,256**	**(2,564)**	**7,692**	5,422	(2,876)	2,546
Other comprehensive income	**12,183**	**(2,564)**	**9,619**	6,550	(2,876)	3,674

15. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$55,315,000 (2010: approximately HK$28,332,000) and the weighted average number of ordinary shares of 166,280,140 (2010: 135,663,044 (restated)) in issue during the year.

(b) Diluted loss per share

No diluted loss per share was presented as the Company did not have any dilutive potential ordinary sharing during the year ended 31 December 2010.

As the exercise of the Company's outstanding convertible bonds for the year ended 31 December 2011 would be anti-dilutive, no diluted loss per share was presented for the year ended 31 December 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. EXPLORATION AND EVALUATION ASSETS

	Exploration and exploitation rights *(notes a and b)* *HK$'000*	**Others** *(note c)* *HK$'000*	**Total** *HK$'000*
Cost			
Additions and at 31 December 2011	444,127	17,279	461,406

Notes:

(a) During 2011, a wholly-owned subsidiary of the Company had entered into agreements to acquire the entire issued share capital of a company, Fastport Investments Holdings Limited ("Fastport") and its subsidiaries. Fastport, through its subsidiaries, has an indirect interest in exploration and exploitation rights in respect of a coal mine in Central Kalimantan, Indonesia. The consideration paid for the acquisition is HK$500,000,000 and was satisfied by the Company issued two series of convertible bonds with face value of HK$200,000,000 and HK$300,000,000 respectively. The acquisition was completed on 13 July 2011. The acquisition was considered as an assets acquisition.

(b) Exploration and exploitation rights are granted for the period from 28 December 2009 to 23 December 2019 and can be extended 2 times, respectively 10 years.

(c) Others represent the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial liability of extracting those resources.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Moulds and tools HK$'000	Total HK$'000
Cost or valuation						
At 1 January 2010	32,438	1,863	22,854	18,841	30,952	106,948
Additions	–	1,092	805	2,674	3,509	8,080
Surplus on revaluation	3,007	–	–	–	–	3,007
Disposals	–	–	(3,489)	(106)	(2,701)	(6,296)
Written off	–	–	(190)	(77)	(498)	(765)
Exchange differences	1,371	–	1,025	469	765	3,630
At 31 December 2010 and at 1 January 2011	36,816	2,955	21,005	21,801	32,027	114,604
Additions	–	303	1,972	3,518	2,332	8,125
Surplus on revaluation	7,518	–	–	–	–	7,518
Disposals	–	–	(3,837)	(271)	(1,199)	(5,307)
Written off	–	–	(1,361)	(2,212)	(2,251)	(5,824)
Exchange differences	1,515	–	934	478	754	3,681
At 31 December 2011	45,849	3,258	18,713	23,314	31,663	122,797
Accumulated depreciation and impairment						
At 1 January 2010	–	1,863	21,146	15,763	29,351	68,123
Charge for the year	2,346	191	863	1,737	1,285	6,422
Write back on revaluation	(2,415)	–	–	–	–	(2,415)
Disposals	–	–	(3,489)	(106)	–	(3,595)
Written off	–	–	(184)	(67)	(494)	(745)
Exchange differences	69	–	956	345	681	2,051
At 31 December 2010 and at 1 January 2011	–	2,054	19,292	17,672	30,823	69,841
Charge for the year	2,680	414	1,223	2,362	1,068	7,747
Write back on revaluation	(2,738)	–	–	–	–	(2,738)
Disposals	–	–	(3,836)	(291)	–	(4,127)
Written off	–	–	(1,308)	(1,585)	(2,214)	(5,107)
Exchange differences	58	–	849	363	678	1,948
At 31 December 2011	–	2,468	16,220	18,521	30,355	67,564
Carrying amount						
At 31 December 2011	45,849	790	2,493	4,793	1,308	55,233
At 31 December 2010	36,816	901	1,713	4,129	1,204	44,763

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The analysis of the cost or valuation at 31 December 2011 of the above assets is as follows:

	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures, office equipment and motor vehicles *HK$'000*	Moulds and tools *HK$'000*	Total *HK$'000*
At cost	–	3,258	18,713	23,314	31,663	76,948
At valuation 2011	45,849	–	–	–	–	45,849
	45,849	3,258	18,713	23,314	31,663	122,797

The analysis of the cost or valuation at 31 December 2010 of the above assets is as follows:

	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures, office equipment and motor vehicles *HK$'000*	Moulds and tools *HK$'000*	Total *HK$'000*
At cost	–	2,955	21,005	21,801	32,027	77,788
At valuation 2010	36,816	–	–	–	–	36,816
	36,816	2,955	21,005	21,801	32,027	114,604

(a) All land and buildings of the Group are outside Hong Kong under medium-term leases.

(b) The Group's land and buildings held for own use were revalued at 31 December 2011 and 2010 on the open market value basis by Roma Appraisals Limited and Ascent Partners Transaction Service Limited respectively, two separate independent firms of professional valuers.

Had the land and buildings held for own use been carried at historical cost less accumulated depreciation and impairment loss as at 31 December 2011 their carrying value would have been approximately HK$20,704,000 (2010: approximately HK$21,797,000).

(c) At 31 December 2011, all land and buildings of the Group were pledged to secure banking facilities granted to the Group (note 36).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. INVESTMENTS IN ASSOCIATES

	2011 HK$'000	2010 HK$'000
Unlisted investments:		
Share of net assets	–	–

Details of the Group's associates at 31 December 2011 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest/voting power/profit sharing	Principal activities
Dynasty L.L.C.	United States of America	140,000 ordinary shares of US$1 each	50%	Dormant
Esterham Enterprise Inc.	British Virgin Islands ("BVI")	2 ordinary shares of US$1 each	50%	Dormant

Summarised financial information in respect of the Group's associates is set out below:

	2011 HK$'000	2010 HK$'000
At 31 December		
Total assets	–	–
Total liabilities	–	–
Net assets	–	–
Group's share of associates' net assets	–	–
Year ended 31 December		
Total revenue	–	–
Total loss for the year	–	–
Group's share of associates' results for the year	–	–

The Group's share of net assets and results for the year is insignificant since the associates are dormant for many years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

19. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	2011 *HK$'000*	2010 *HK$'000*
Unlisted investment:		
Share of net liabilities	**(40)**	(40)

Details of the Group's jointly controlled entity at 31 December 2011 are as follows:

Name	**Place of incorporation/ registration**	**Issued and fully paid up capital**	**Percentage of ownership interest/voting power/profit sharing**	**Principal activities**
Kato Fairform Strategic Holdings Limited	Hong Kong	10 ordinary shares of HK$1 each	40%	Investment holding

The following amounts are the Group's share of the jointly controlled entity that are accounted for by the equity method of accounting.

	2011 *HK$'000*	2010 *HK$'000*
At 31 December		
Current assets	**4**	4
Current liabilities	**(44)**	(44)
Net liabilities	**(40)**	(40)
Year ended 31 December		
Turnover	**–**	–
Expenses	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

20. OTHER NON-CURRENT ASSETS

It represented a quality guarantee deposit amounted to HK$44,933,000 paid to China Infohighway Communications Co., Ltd. ("IHW") pursuant to Cooperation Agreement and Supplemental Agreements (collectively "the Agreements") entered into between the Group and IHW on 19 December 2001. Under the Agreements the Group agreed to provide certain equipment and facilities as necessary for IHW's network infrastructure for a facility fee. In the event that the Group failed to provide the required equipment and facilities, IHW could make use of the deposit to purchase the required equipment and facilities. The deposit was unsecured, non-interest bearing and is repayable upon the expiry of the Agreements on 21 July 2019.

However, owing to the difficulty and complexity in securing a telecommunications service-operating permit in the PRC, the Group had decided to suspend the cooperation projects. The directors had negotiated a refund of the deposit with IHW but had been unable to reach an agreement.

As the recoverability of the deposit was uncertain, the directors considered that it is prudent to make full allowance of impairment of HK$44,933,000 against the deposit since the year ended 31 December 2003.

21. INVENTORIES

	2011	2010
	HK$'000	*HK$'000*
Raw materials	**9,825**	11,299
Work in progress	**7,575**	5,438
Finished goods	**2,429**	1,369
	19,829	18,106

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

22. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade debtors and bills receivables *(notes (a), (b) & (c))*	**22,555**	29,243
Other debtors, deposits and prepayments	**5,129**	16,849
Amounts due from associates *(note (d))*	**21**	21
Amount due from a jointly controlled entity *(note (d))*	**115**	112
	27,820	46,225

Notes:

(a) The ageing analysis of trade debtors and bills receivable, based on the invoice date, and net of allowance, is at follows:

	2011 HK$'000	2010 HK$'000
0 to 30 days	**7,972**	12,659
31 to 90 days	**12,446**	14,638
91 to 180 days	**1,603**	1,709
181 to 365 days	**230**	28
Over 365 days	**304**	209
	22,555	29,243

Trade debts are normally due within from 30 to 60 days from the date of billing.

As at 31 December 2011, trade debtors and bills receivables of approximately HK$7,253,000 (2010: approximately HK$9,670,000) are assigned to a bank for a factoring loan included in the banking facilities as set out in notes 25 and 36 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (continued)

(b) The carrying amounts of the Group's trade debtors and bills receivables are denominated in the following currencies:

	USD *HK$'000*	RMB *HK$'000*	Total *HK$'000*
2011	**20,612**	**1,943**	**22,555**
2010	27,874	1,369	29,243

(c) Trade debtors and bills receivables were past due but not impaired

As of 31 December 2011, trade debtors and bills receivables of approximately HK$8,788,000 (2010: approximately HK$5,769,000) were past due but not impaired. The ageing analysis of these trade debtors and bills receivables is as follows:

	2011 *HK$'000*	2010 *HK$'000*
Up to 3 months	**8,214**	5,533
3 to 6 months	**41**	19
More than 6 months	**533**	217
	8,788	5,769

Receivables that were past due but not impaired relate to customers having a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(d) Amounts due from associates and a jointly controlled entity are unsecured, interest-free and have no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

23. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to a bank to secure banking facilities granted to the Group as set out in note 36 to the financial statements. The deposits are in HKD and at an average interest rate of 0.05% (2010: 0.03%) per annum and therefore are subject to fair value interest rate risk.

As at 31 December 2011, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$773,000 (2010: approximately HK$468,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24. TRADE AND OTHER PAYABLES

	2011 ***HK$'000***	2010 *HK$'000*
Trade creditors and bills payables *(notes (a) & (b))*	**24,936**	29,725
Other creditors and accrued charges	**39,193**	36,050
Amounts due to directors *(note (c))*	**119**	–
	64,248	65,775

Notes:

(a) The ageing analysis of trade creditors and bills payables, based on the date of receipt of goods, is at follows:

	2011 ***HK$'000***	2010 *HK$'000*
0 to 30 days	**9,968**	12,354
31 to 90 days	**10,053**	13,457
91 to 180 days	**2,978**	2,083
Over 180 days	**1,937**	1,831
	24,936	29,725

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

24. TRADE AND OTHER PAYABLES *(Continued)*

Notes: (continued)

(b) The carrying amounts of the Group's trade creditors and bills payables are denominated in the following currencies:

	HKD *HK$'000*	USD *HK$'000*	RMB *HK$'000*	Total *HK$'000*
2011	**10,237**	**689**	**14,010**	**24,936**
2010	15,862	1,618	12,245	29,725

(c) Amounts due to directors are unsecured, interest-free and have no fixed repayment terms.

25. BORROWINGS

	2011 ***HK$'000***	2010 *HK$'000*
Unsecured loan from financial institution *(note (a))*	**380**	380
Secured bank loan *(notes (b) & (d))*	**16,022**	15,389
Secured factoring loan *(notes (c) & (d))*	**1,005**	7,068
	17,407	22,837

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

	HKD *HK$'000*	USD *HK$'000*	RMB *HK$'000*	Total *HK$'000*
2011	**380**	**1,005**	**16,022**	**17,407**
2010	380	7,068	15,389	22,837

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

25. BORROWINGS *(Continued)*

Notes:

(a) The unsecured loan is interest bearing at 3% per annum over the prevailing prime lending rate offered by The Hongkong and Shanghai Banking Corporation Limited and exposes the Group to cash flow interest rate risk.

(b) The secured bank loan is arranged at floating interest rate with an average rate of 6.7% (2010: 5.44%) per annum and expose the Group to cash flow interest rate risk.

(c) The secured factoring loan is arranged at interest rate of 1% (2010: 1%) per annum over the standard bills rate quoted by the bank and exposes the Group to cash flow interest rate risk.

(d) The secured bank and factoring loans are secured over the Group's land and buildings held for own use situated outside Hong Kong, fixed deposits approximately HK$3 million (2010: approximately HK$1.5 million), the Company's guarantee and certain trade receivables of a subsidiary (notes 22 and 36).

26. UNSECURED OTHER LOANS

On 1 February 2000, pursuant to a placing and underwriting agreement dated 16 December 1999 entered into between the Company and independent placing agents, 4% convertible notes with an aggregate principal amount of HK$9 million were issued (the "Notes"). The Notes were convertible to ordinary shares of HK$0.05 each of the Company at any time between 1 April 2000 and 27 January 2002 and Notes of HK$2.5 million were subsequently converted during 2000.

Prior to maturity, holders of the remaining Notes of HK$6.5 million had not exercised the conversion right, therefore, the directors of the Company consider that the conversion right attaching to the Notes had lapsed. The Notes should be regarded as unsecured other loans and the outstanding balances together with accrued interest of approximately HK$9.1 million are due for repayment. As at the date of authorisation for issue of these financial statements, the Notes holders have not yet requested the Company to repay the loans.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

27. DEFERRED TAX

(a) The following are the major deferred tax liabilities recognised by the Group.

	Revaluation land and buildings *(note 14)* *HK$'000*
At 1 January 2010	–
Charge to equity for the year	(2,876)
At 31 December 2010 and 1 January 2011	(2,876)
Charge to equity for the year	(2,564)
Exchange differences	(118)
At 31 December 2011	(5,558)

(b) At the end of the reporting period the Group has unused tax losses of approximately HK$107 million (2010: HK$139 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profits streams. The tax losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. CONVERTIBLE BONDS

	2011 *HK$'000*	2010 *HK$'000*
Liability component of convertible bonds		
Convertible bonds issued with equity component *(a)*	**198,808**	–
Convertible bonds issued with derivative component *(b)*	**219,870**	–
	418,678	–
The maturity of the liability component of the convertible bonds:		
Within one year	**7,000**	–
In the second to fifth years inclusive	**411,678**	–
	418,678	–
Derivative component of convertible bonds		
Convertible bonds issued with derivative component *(b)*	**11,081**	–
Call option assets of convertible bonds		
Convertible bonds issued with equity component *(a)*	**14,756**	–
Convertible bonds issued with derivative component *(b)*	**23,009**	–
	37,765	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. CONVERTIBLE BONDS *(Continued)*

Notes:

(a) Series A convertible bonds (the "SA")

On 13 July 2011, the Group issued the SA with a principal amount of HK$200,000,000. The SA had a maturity period of three years from the issue date to 12 July 2014. During the period from 13 July 2011 to 12 July 2014, the SA entitles the holder to convert the bonds into new ordinary shares of the Company at an initial conversion price, subject to adjustment of HK$0.074 per share. The conversion price was adjusted to HK$1.85 per share due to share consolidation of every 25 shares of HK$0.05 each in the share capital consolidated into 1 consolidated share of HK$1.25 each on 9 November 2011.

Any SA not converted will be redeemed on 12 July 2014 at 100% of their principal amount. Interest of 5 per cent will be paid annually up until that settlement date.

The SA contains three components, a call option asset, a liability and an equity component. The equity component is presented in equity as part of the "convertible bonds equity reserve". The effective interest rate of the liability component for the SA is 6.17% per annum. The call option assets is measured at fair value with changes in fair value recognised in the profit or loss.

The proceeds received from the issue of the SA have been split between the call option assets, liability and equity components as follows:

	2011	2010
	HK$'000	*HK$'000*
Value of convertible bonds issued	**192,754**	–
Equity component	**(17,665)**	–
Call option assets	**18,157**	–
Liability component at date of issue	**193,246**	–
Interest charged	**5,562**	–
Liability component at 31 December 2011	**198,808**	–
Call option assets at date of issue	**18,157**	–
Fair value loss for the year	**(3,401)**	–
Call option assets at 31 December 2011	**14,756**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. CONVERTIBLE BONDS *(Continued)*

Notes: (continued)

(a) Series A convertible bonds (the "SA") *(continued)*

The directors estimate the fair value of the liability component of the SA at 31 December 2011 to be approximately HK$194,062,000. The fair value has been calculated by discounting the future cash flows at the market rate.

The call option assets component is measured at its fair value at the date of issue and at the end of each reporting period. The fair values are estimated using Black-Scholes option pricing model. The key assumptions used are as follows:

	31 December 2011	13 July 2011
Expected volatility	10.739%	11.919%
Expected life	2.534 years	3.003 years
Risk free rate	0.471%	0.603%

(b) Series B convertible bonds (the "SB")

On 13 July 2011, the Group issued the SB with a principal amount of HK$300,000,000. The SB had a maturity period of four years from the issue date to 12 July 2015. During the period from 13 July 2011 to 12 July 2015, the SB entities the holder to convert the bonds into new ordinary shares of the Company at the higher of the following:

(i) the average closing price of the shares as quoted on the Stock Exchange for the last 5 trading days before the date of the conversion notice; and

(ii) the initial conversion price, subject to adjustment, of HK$0.05 per share. The conversion price was adjusted to HK$1.25 per share due to share consolidation of every 25 shares of HK$0.05 each in the share capital consolidated into 1 consolidated share of HK$1.25 each on 9 November 2011.

Any SB not converted will be redeemed on 12 July 2015 at 100% of their principal amount. Interest of 2 per cent will be paid annually up until that settlement date.

The SB contains three components, a call option asset, a derivative and a liability. The effective interest rate of the liability component for the SB is 6.1% per annum. The call option assets and derivative components are measured at fair value with changes in fair value recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. CONVERTIBLE BONDS *(Continued)*

Notes: (continued)

(b) Series B convertible bonds (the "SB") *(continued)*

The proceeds received from the issue of the SB have been split between the call option assets, derivative and liability components as follows:

	2011	2010
	HK$'000	*HK$'000*
Value of convertible bonds issued	**251,373**	–
Call option assets	**37,321**	–
Derivative component	**(32,175)**	–
Liability component at date of issue	**256,519**	–
Redemption of convertible bonds	**(42,862)**	–
Interest charged	**6,213**	–
Liability component at 31 December 2011	**219,870**	–
Call option assets at date of issue	**37,321**	–
Redemption of convertible bonds	**(5,629)**	–
Fair value loss for the year	**(8,683)**	–
Call option assets at 31 December 2011	**23,009**	–
Derivative component at date of issue	**32,175**	–
Redemption of convertible bonds	**(6,660)**	–
Fair value gain for the year	**(14,434)**	–
Derivative component at 31 December 2011	**11,081**	–

28. CONVERTIBLE BONDS *(Continued)*

Notes: (continued)

(b) Series B convertible bonds (the "SB") *(continued)*

The directors estimate the fair value of the liability component of the SB at 31 December 2011 to be approximately HK$211,874,000. The fair value has been calculated by discounting the future cash flows at the market rate.

The call option assets component is measured at its fair value at the date of issue and at the end of each reporting period. The fair values are estimated using Black-Scholes option pricing model. The key assumptions used are as follows:

	31 December 2011	27 July 2011	13 July 2011
Expected volatility	10.803%	12.198%	13.424%
Expected life	3.534 years	3.964 years	4.003 years
Risk free rate	0.665%	0.885%	0.946%

The derivative component is measured at its fair value at the date of issue and at the end of each reporting period. The fair values are estimated using Black-Scholes option pricing model. The key assumptions used are as follows:

	31 December 2011	27 July 2011	13 July 2011
Weighted average share price	HK$0.205	HK$0.023	HK$0.019
Weighted average exercise price	HK$1.25	HK$0.05	HK$0.05
Expected volatility	133.442%	119.544%	119.949%
Expected life	3.534 years	3.964 years	4.003 years
Risk free rate	0.665%	0.885%	0.946%
Expected dividend yield	0%	0%	0%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. RETIREMENT BENEFIT SCHEMES

(a) Employee retirement benefits

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer makes contributions to the scheme at 5% – 10% and employees are required to make 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 except for certain senior staff. Mandatory contributions to the scheme vest immediately.

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans ("Plans") organised by local authorities for the Group's employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the Plans. The Group has no other material obligation for the payment of pension benefits associated with these Plans beyond the annual contributions described above.

(b) Equity compensation benefits

The Company has a share option scheme which was adopted on 2 June 1997 whereby the directors of the Company are authorised to invite employees of the Group, including the directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board and was the higher of the nominal value of the shares of the Company and 80% of the average of the closing prices per share on the Stock Exchange for the five business days immediately preceding the date of grant. The options vest after one year from the date of grant and are then exercisable within a period of ten years thereafter. Each option gives the holder the right to subscribe for one share. With effect from 1 September 2001, the Company needs to revise the terms of the existing scheme to comply with the requirements of Chapter 17 of the Listing Rules if the Company wishes to continue to grant options under the existing scheme.

Movements in share options are as follows:

	Number	
	2011	2010
At 1 January	–	30,140,000
Lapsed	–	(30,140,000)
At 31 December – options vested	–	–

The outstanding share options at 31 December 2009 were granted on 10 July 2000 and are exercisable for a period commencing from 10 July 2001 to 9 July 2010 at an exercise price of HK$0.392 per share.

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For the year ended 31 December 2011

30. SHARE CAPITAL

	Note	Number of shares	Amount
			HK$'000
Authorised:			
Ordinary shares of HK$0.001 (2010: HK$0.05) each			
At 1 January 2010 and 31 December 2010		6,000,000,000	300,000
Increased in authorised ordinary share	(c)	14,000,000,000	700,000
Subdivision	(e)	980,000,000,000	–
At 31 December 2011		1,000,000,000,000	1,000,000
Issued and fully paid:			
Ordinary shares of HK$0.001 (2010: HK$0.05) each			
At 1 January 2010		3,177,926,789	158,896
Issue of share on placement		317,000,000	15,850
At 31 December 2010 and 1 January 2011		3,494,926,789	174,746
Issue of share by subscription	(a)	317,000,000	15,850
Issue of shares on placement	(b)	760,000,000	38,000
Share consolidation	(d)	(4,389,049,718)	–
Capital reduction	(e)	–	(228,413)
At 31 December 2011		182,877,071	183

Notes:

(a) On 14 February 2011, the Company and Pico Zeman Securities (HK) Limited entered into a placing agreement in respect of the placement of 317,000,000 ordinary shares of HK$0.05 each to independent investors at a price of HK$0.106 per share. The placement was completed on 15 February 2011 and transaction cost on the placement, amounting to approximately HK$1,158,060 was debited to the Company's share premium account. On the same day, the Company and Early State Enterprises Limited (the "Early State") entered into a subscription agreement in respect of the subscription of 317,000,000 ordinary shares of HK$0.05 each to Early State at a price of HK$0.106 per share. The subscription was completed on 21 February 2011 and the premium on the issue of shares, amounting to approximately HK$17,631,419, net of share issue expenses, was credited to the Company's share premium account.

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For the year ended 31 December 2011

30. SHARE CAPITAL *(Continued)*

Notes: (continued)

(b) On 20 June 2011, the Company and Pico Zeman Securities (HK) Limited entered into a placing agreement in respect of the placement of 760,000,000 ordinary shares of HK$0.05 each to independent investors at a price of HK$0.05 per share. The placement was completed on 28 June 2011 and transaction cost on the issue of shares, amounting to approximately HK$1,235,000 was debited to the Company's share premium account.

(c) By an ordinary resolution passed on 5 July 2011 the authorised ordinary share capital of the Company was increased from HK$300,000,000 to HK$1,000,000,000 by the creation of 14,000,000,000 shares of HK$0.05 each, such new shares ranking pari passu in all respects with the existing shares of the Company.

(d) Pursuant to a special resolution passed on 8 November 2011, every 25 ordinary shares of HK$0.05 each in the issued share capital of the Company were consolidated into 1 consolidated ordinary share of HK$1.25 each in the issued share capital of the Company (the "Share Consolidation").

(e) By a special resolution passed on 8 November 2011, following the Share Consolidation, the issued share capital of the Company be reduced through a cancellation of the paid-up capital of the Company to the extent of HK$1.249 on each of the issued Consolidated Share in the share capital of the Company such that the nominal value of each issued Consolidated Share be reduced from HK$1.25 to HK$0.001 ("New Share") and a round down of the total number of Consolidated Shares in the issued share capital of the Company to a whole number ("Capital Reduction"). The credit arising from the Capital Reduction be transferred to the contributed surplus account of the Company. Each authorised but unissued Existing Share of HK$0.05 each in the share capital of the Company be subdivided into 50 New Shares of HK$0.001 each.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt. As at 31 December 2011, the Group did not have any net debt.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

30. SHARE CAPITAL *(Continued)*

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, retained profits and other reserves).

It is the Group's strategy to keep the net debt-to-adjusted capital ratio as low as feasible.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 *HK$'000*	2010 *HK$'000*
Investments in subsidiaries	**191,351**	191,351
Due from subsidiaries	**1,991,961**	1,498,804
Impairment loss on investments and amounts due from subsidiaries	**(1,705,907)**	(1,685,561)
Due from a jointly controlled entity	**109**	109
Call option assets of convertible bonds	**37,765**	–
Derivative component of convertible bonds	**(11,081)**	–
Other current assets	**81,395**	115,727
Due to subsidiaries	**(26,890)**	(26,890)
Liability component of convertible bonds	**(418,678)**	–
Other current liabilities	**(12,358)**	(13,201)
NET ASSETS	**127,667**	80,339
Share capital	**183**	174,746
Reserves	**127,484**	(94,407)
TOTAL EQUITY	**127,667**	80,339

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. RESERVES

(a) Group

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

(b) Company

	Share premium	Contributed surplus	Warrant reserve	Convertible bonds equity reserves	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	1,510,456	9,354	24,226	–	(1,639,322)	(95,286)
Issue of shares on placement	31,265	–	–	–	–	31,265
Loss for the year	–	–	–	–	(30,386)	(30,386)
At 31 December 2010	1,541,721	9,354	24,226	–	(1,669,708)	(94,407)
At 1 January 2011	1,541,721	9,354	24,226	–	(1,669,708)	(94,407)
Issue of shares on subscription and placement *(notes 30(a) & (b))*	15,238	–	–	–	–	15,238
Loss for the year	–	–	–	–	(39,425)	(39,425)
Recognition of equity component of convertible bonds *(note 28(a))*	–	–	–	17,665	–	17,665
Reduction of issued share capital *(note 30(e))*	–	228,413	–	–	–	228,413
At 31 December 2011	1,556,959	237,767	24,226	17,665	(1,709,133)	127,484

(c) Nature and purpose of reserves

(i) Share premium account

Under the Bye-laws of the Company, the share premium is not distributable but may be applied in paying up unissued shares of the Company to be issued to shareholders of the Company as fully paid bonus shares.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. RESERVES *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(ii) Contributed surplus

The contributed surplus of the Company arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 1997 and represented the excess of the then consolidated net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

The contributed surplus arose in the years represented the net effect of the capital reduction of the Group.

Under the Companies Act of Bermuda, the contributed surplus account of the Company is available for distribution. However the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

– it is, or would after the payment be, unable to pay its liabilities as they become due; or

– the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(iii) Warrant reserve

The warrant reserve represents the proceeds received from the issue of 370,000,000 warrants at a placing price of HK$0.07 per warrant on 27 November 2003, net of warrant issue expenses. The trading of the warrants on the Stock Exchange had ceased after 2 December 2004 and the listing of the warrants on the Stock Exchange was withdrawn from 4 December 2004. The subscription rights attaching to the warrants had expired on 7 December 2004. The Company had 365,880,000 outstanding warrants not exercised.

(iv) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(e) to the financial statements.

(v) Convertible bonds equity reserve

The convertible bonds equity reserve represents the value of the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in note 3(q) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. RESERVES *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(vi) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for buildings in note 3(f) to the financial statements.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Acquisition of subsidiaries

On 13 July 2011, the Group acquired the entire issued share capital of a company, Fastport Investments Holdings Limited ("Fastport") and its subsidiaries. Fastport, through its subsidiaries, has an indirect interest in exploration and exploitation rights in respect of a coal mine in Central Kalimantan, Indonesia. The consideration paid for the acquisition is HK$500,000,000 and was satisfied by the Company to issue two series of convertible bonds with face value of HK$200,000,000 and HK$300,000,000 respectively. The acquisition was completed on 13 July 2011. The acquisition was considered as an assets acquisition for the exploration and exploitation rights (note 16).

The value of the identifiable assets and liabilities of Fastport and its subsidiaries acquired as at the date of acquisition is as follows:

	HK$'000
Net assets acquired:	
Exploration and evaluation assets	444,127
Satisfied by:	
Convertible bonds (fair value)	444,127

Except the exploration and exploitation rights, Fastport and its subsidiaries acquired did not have other identifiable assets and liabilities as at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2011 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/voting power/profit sharing		Principal activities
			Direct	*Indirect*	
Dongguan Fairform Creative Company Limited *(note (a))* *	The PRC	Registered capital HK$8,000,000	–	100%	Manufacturing and trading of healthcare and household products
Dongguan Weihang Electrical Product Company Limited *(note (b))*	The PRC	Registered capital US$9,000,000	–	100%	Manufacturing and trading of healthcare and household products
eForce Management Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	–	Provision of management services
eForce Project Services Limited	BVI	1 share of US$1	100%	–	Provision of management consultancy services
Fairform Group Limited	BVI	15,700,200 shares of US$1 each	100%	–	Investment holding
Fairform Manufacturing Company Limited	Hong Kong	138,750,000 ordinary shares of HK$1 each and 250,000 non-voting deferred shares of HK$1 each	–	100%	Manufacturing and trading of healthcare and household products
Gainford International Inc.	BVI	50 shares of US$1 each	–	100%	Investment holding
Oasis Global Limited	BVI	10 shares of US$1 each	–	100%	Trademark holding
Qesco International (H.K.) Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	–	100%	Trademark holding
Fastport Investments Holdings Limited	BVI	100 ordinary shares of US$1 each	–	100%	Investment holding
PT Bara Utama Persade Raya	Republic of Indonesia	4,999 shares of IDR100,000 each	–	99.98%	Own a coal mining concession

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. PRINCIPAL SUBSIDIARIES *(Continued)*

Notes:

(a) Dongguan Fairform Creative Company Limited (the "DFC") is a wholly foreign owned enterprise with an operating period of 12 years expiring on 8 September 2017. As at 31 December 2011, the DFC is in process of deregistration. In the opinion of director of the Company, the deregistration process is expected to be completed in August 2012.

(b) Dongguan Weihang Electrical Product Company Limited is a wholly foreign owned enterprise with an operating period of 30 years expiring on 10 April 2024.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* *For identification purpose only*

35. CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities (2010: Nil).

36. BANKING FACILITIES

At 31 December 2011 the Group had banking facilities amounted to approximately HK$35 million (2010: approximately HK$47 million), which were secured by the following:

(a) land and buildings of the Group (note 17);

(b) trade receivable of the Group amounted to approximately HK$7 million (2010: approximately HK$10 million) under factoring arrangement (notes 22 and 25);

(c) fixed deposits of the Group amounted to approximately HK$3 million (2010: approximately HK$1.5 million); and

(d) guarantee for an unlimited amount duly executed by the Company.

At 31 December 2011, the Group had available approximately HK$15.6 million (2010: approximately HK$21.5 million) undrawn borrowing facilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

37. COMMITMENTS

At 31 December 2011, the Group has the following capital commitments outstanding and not provided for in the financial statements:

	2011 *HK$'000*	2010 *HK$'000*
Contracted but not provided for:		
Quality guarantee deposit	**17,500**	17,500
Interest-free loan to a jointly controlled entity	**4,000**	4,000
	21,500	21,500

38. RELATED PARTY TRANSACTIONS

Apart from those related party transactions and balances disclosed elsewhere in the financial statements, the Group had no other transactions with its related parties during the year.

39. LEASE COMMITMENTS

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2011 *HK$'000*	2010 *HK$'000*
Within one year	**4,039**	4,123
In the second to fifth years inclusive	**2,454**	4,279
After five years	**8,125**	8,055
	14,618	16,457

The Group leases a number of properties under operating leases. The leases run for an initial period from 1 to 50 years, with an option to renew the lease and renegotiate the terms at the expiry date or dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2012.

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Turnover	**137,061**	141,627	112,132	163,474	159,657
Operating loss after finance costs	**(55,016)**	(28,353)	(10,557)	(22,890)	(5,141)
Share of loss of a jointly controlled entity	**–**	–	–	(40)	–
Loss before taxation	**(55,016)**	(28,353)	(10,557)	(22,930)	(5,141)
Income tax credit/(expense)	**(299)**	21	(3)	(545)	(358)
Loss for the year	**(55,315)**	(28,332)	(10,560)	(23,475)	(5,499)
Loss attributable to equity holders of the Company	**(55,315)**	(28,332)	(10,560)	(23,475)	(5,499)

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**691,542**	224,993	177,125	141,044	166,351
Total liabilities	**(527,914)**	(102,422)	(77,011)	(79,850)	(81,451)
Net assets	**163,628**	122,571	100,114	61,194	84,900
Equity attributable to equity holders of the Company	**163,628**	122,571	100,114	61,194	84,900