KAI YUAN HOLDINGS LIMITED
開源控股有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 1215)

ANNUAL REPORT 2011

Contents

Corporate Information

BOARD OF DIRECTORS (THE "BOARD")

Executive Directors

Mr. Xue Jian
Mr. Law Wing Chi, Stephen (appointed on 18 May 2011)
Mr. Yip Kar Hang, Raymond (resigned on 6 Jan 2011)
Ms. Kwong Wai Man, Karina (resigned on 31 Dec 2011)

Non-executive Directors

Mr. Hu Yishi *(Chairman)*
Mr. Hu Jin Xing (resigned on 31 Dec 2011)

Independent non-executive Directors

Mr. Tam Sun Wing
Mr. Ng Ge Bun
Mr. He Yi (appointed on 18 May 2011)
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)

AUDIT COMMITTEE

Mr. Tam Sun Wing *(Chairman)*
Mr. Ng Ge Bun
Mr. He Yi (Appointed on 18 May 2011)
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)

REMUNERATION COMMITTEE

Mr. Tam Sun Wing *(Chairman)*
Mr. Law Wing Chi, Stephen (appointed on 18 May 2011)
Mr. He Yi (appointed on 18 May 2011)
Mr. Ng Ge Bun (appointed on 31 May 2011)
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)
Ms. Kwong Wai Man, Karina (resigned on 31 Dec 2011)

NOMINATION COMMITTEE

Mr. Ng Ge Bun *(Chairman)*
Mr. Law Wing Chi, Stephen (appointed on 18 May 2011)
Mr. He Yi (appointed on 18 May 2011)
Mr. Tam Sun Wing (appointed on 31 May 2011)
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)
Ms. Kwong Wai Man, Karina (resigned on 31 Dec 2011)

COMPANY SECRETARY

Mr. Fong Kwok Kin

STOCK CODE

1215

WEBSITE

www.kaiyuanholdings.com

PRINCIPAL REGISTRAR

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

SHARE REGISTRAR

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

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL OFFICE IN HONG KONG

28th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
22/F CITIC Tower,
1 Tim Mei Avenue
Central
Hong Kong

SOLICITORS

K&L Gates
Solicitors
44th Floor, Edinburgh Tower
The Landmark,
15 Queen's Road, Central,
Hong Kong

PRINCIPAL BANKERS

The Hong Kong & Shanghai Banking Corporation Limited
Fubon Bank

Chairman's Statement

I am pleased to present the results of Kai Yuan Holdings Limited (the "Company" or "Kai Yuan") together with its subsidiaries (the "Group") for year ended 31 December 2011.

The unstable steel trading market in China had prominently affected business of the Group's associates engaged in steel manufacturing and trading, and overall results of the Group of 2011. In late 2011, the Group had explored new business opportunity through commencement of trading in iron ores. In December 2011, the Company issued convertible bonds in amount of HK$280,000,000 to enhance liquidity. The Group shall continue to seek for opportunities to strengthen business portfolio in steel manufacturing and trading, heat energy supply and property investment. The economy prospect of 2012 remains challenging, the Group shall adhere to a prudent financial discipline, and shall be well prepared for challenges ahead.

I would like to take this opportunity to thank all members of our Board, management and staff members for their hard work and contributions during the year.

Hu Yishi
Chairman
23 March 2012

Management Discussion and Analysis

BUSINESS REVIEW

Revenue of the Group for the year ended 31 December 2011 (the "Year") amounted to HK$331.0 million, representing an increase of approximately HK$210.9 million from approximately HK$120.1 million for the year ended 31 December 2010 (the "Previous Year"). The increase in revenues was mainly derived from trading of iron ores commenced during the Year and the Group's heat energy supply operations in Tianjin, PRC. During the Year, the Group recorded a loss of approximately HK$400.5 million, as compared with a loss of approximately HK$23.0 million for the Previous Year, which was principally attributable to share of loss from the Group's associates engaged in steel manufacturing as a result of the downturn of steel market and increase in prices of raw materials as well as other production costs, in particular in the fourth quarter of 2011. The Group's heat energy supply operations were continued to be affected by continuous cooling down of real estate development in the Tianjin city, PRC. Loss attributable to owners of the Company for the Year amounted to HK$388.9 million, as compared with a profit of HK$101.2 million in Previous Year. The basic and diluted loss per share was HK$4 cents, as compared with the basic and diluted earnings per share of HK$1 cent for the Previous Year.

Segmental review of the Group's operations during the Year is as follows:

Steel Manufacturing and Trading

The downturn of PRC's steel trading market, in particular in the fourth quarter of 2011 had adversely affected the Group's steel-manufacturing associates, namely Rizhao Steel Co., Limited, Rizhao Medium Section Mill Co., Limited and Rizhao Steel Wire Co., Limited (the "Three Associates"). Profit margin of the Three Associates were squeezed by increase in raw materials as well as production costs and sluggish demand of steel products. During the Year, output of the Three Associates remained at optimal levels. A net loss of HK$330.0 million was resulted from the Three Associates for the Year as compared with a profit of approximately HK$293.5 million contributed to the Group in the Previous Year.

As disclosed in an announcement of the Company dated 1 March 2011, procedures relevant to the proposed asset acquisition, amongst others, between the Three Associates and 山東鋼鐵集團有限公司 (for English identification, Shandong Iron and Steel Group Co., Limited) are still being undertaken as at the date of this report on 23 March 2012. The Company shall make further disclosure on any new development as and when required under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

In the Company's 2011 interim report, it was disclosed that the Group shall explore opportunities to expand into the business of involved in steel manufacturing. During the Year, the Group recorded a revenue of HK$149.0 million from trading of iron ore fines (31 December 2010: Nil), the Group shall continue to leverage on this business line to strengthen our customer base.

Heat Energy Supply

The Group's heat energy supply subsidiaries in Tianjin, PRC have three heat energy supply projects located at the southwest fringe of the Tianjin city, namely the Meijiang Project, the Jinxia Xindu Project and Xiqing Nanhe Project. Despite the restrictive property purchase policy together with credit tightening policy launched by the PRC government had dampened market sentiment on property market, the heat energy supply operations of the Group achieved a revenue of approximately HK$182.0 million as compared with approximately HK$120.1 million in the Previous Year. Despite the increased revenue, the Group's heat energy supply facilities has yet to be utilized at efficient levels relative to the inelastic fixed cost structure of heat energy generation. During the Year, the segmental loss of the Group's heat energy supply subsidiaries was approximately HK$21.5 million, decreased by HK$165.4 million, as compared with the segmental loss of HK$186.9 million of the Previous Year.

Property Investment

During the Year, the Group completed the disposal of External Fame Limited, a wholly-owned subsidiary of the Company, details of the disposal are disclosed in note 12.

In Shanghai, operations of Shanghai Underground Centre Company Limited ("SUCCL") remained stable, recording revenue of approximately HK$59 million for the Year (31 December 2010: approximately HK$55 million). As a result of cost control measures, SUCCL contributed a profit of approximately HK$1.6 million for the Year, as compared with a profit of HK$0.6 million for the Previous Year.

PROSPECTS

Steel Manufacturing and Trading

The price of steel products in China continues to face challenges with sluggish demand and slower economic growth. The price of raw materials, energy and other production costs of steel manufacturing are continued to remain at high level, while such costs may not be completely shifted to consumers. The Group's associates engaged in steel manufacturing and trading shall exercise caution and adopt a prudent approach in conducting its business, greater effort would be placed on inventory control, energy saving and recycling, in order to maintain competitiveness against rivals.

Trial run on business of trading in iron ores has commenced in the second half of 2011, the Group is pleased with the outcomes. Despite recent fluctuation in global iron ore prices due to, expectation on expansion of global iron ores production capacity and uncertainty on demands, we have confidence in the business of iron ores trading. The Group shall continue to explore the iron ores trading business in 2012 with caution and discipline.

Heat Energy Supply

It is expected that the Group's operations in Tianjin city continue to be challenged by restrictive property purchase policy and credit tightening policy launched by the PRC government. The Group's operations in Tianjin city remain to be affected by increasing operating costs. However, heat energy supply is a crucial public utility service, which will contribute a constant revenue stream to the Group. The Group wishes to capture opportunities bought forward by robust growth of the Tianjin city when the economy revives.

Property Investment

China's property market is filled with uncertainty. The Group shall continue to monitor market situation and review its property investment portfolio from time to time in order to capture market opportunities and maximise returns.

Looking ahead

The Group shall take a conservative approach in conducting our business. We remain committed to broaden our business operation in order to provide the Group with long term and sustainable income stream. The Group remains in low debt ratio and is strong in liquidity position, we shall continue to explore suitable investment opportunities to enhance value to shareholders of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, total assets and net assets of the Group were approximately HK$4,751.3 million and HK$3,853.7 million respectively, as compared with HK$4,674.9 million and HK$3,791.3 million as at 31 December 2010. Cash and bank balance and pledged bank deposits of the Group as at 31 December 2011 totaled approximately HK$459.8 million (31 December 2010: HK$225.8 million), representing an increase of 103.6%, which was largely due to issuance of convertible bonds. Correspondingly, current assets increased by 78.1% to approximately HK$783.3 million during the Year (31 December 2010: HK$439.8 million). As at 31 December 2011, the Group's outstanding bank and other borrowings amounted to approximately HK$21.7 million (31 December 2010: HK$80.0 million), approximately HK$19.1 million of which was due within one year. Net current assets as at 31 December 2011 was approximately HK$279.3 million. (31 December 2010: Net current liabilities HK$268.2 million). As at 31 December 2011, the Group's gearing ratio (total borrowings/total assets) continued to remain at a low level of 2.9% (31 December 2010: 4.0%).

Management Discussion and Analysis

Acquisitions and Disposals

(a) During the Year, Global Strategy International Limited, a wholly-owned subsidiary of the Company, had disposed of its entire interest in its wholly-owned subsidiary, Kai Yuan Securities Limited, to Sheng Yuan Financial Services Group Limited ("SYFSGL") at a consideration of HK$17.7 million.

SYFSGL is a wholly owned subsidiary of Sheng Yuan Holdings Limited ("SYHL"), the issued shares of which are listed on the Stock Exchange, in which a director of the Company held 62.39% equity interest as at the date hereof.

(b) During the Year, Eland Success Limited, a wholly-owned subsidiary of the Company, had disposed of its entire interest in its wholly owned subsidiary, External Fame Limited, to an independent third party for a total consideration of HK$72 million.

Foreign Exchange Exposure

The operations of the Group are located in the PRC. Loans and borrowings taken in relation to such operations are mostly denominated in the local currency to match with their relevant local expenditures, thus mitigating risks arising from foreign exchange fluctuations. However, exchange risks may arise as a result of fluctuations in the value of Renminbi when translations and exchanges are made between Renminbi and Hong Kong dollar, as the Group's head office operating expenses are incurred in Hong Kong dollars. Furthermore, a small portion of the Group's borrowings incurred by one of the subsidiaries of Tianjin Heating was denominated in US dollars and exchange risks may arise as a result of fluctuations in the value of Renminbi against the US dollar. However, as Renminbi is not freely convertible into other foreign currencies and cost effective hedging instruments are not widely available, no further hedging was provided and no financial instrument for hedging was employed by the Group during the Year. The Group shall from time to time review and monitor the exchange risks, and consider employing foreign exchange hedging arrangements when appropriate and necessary.

Contingent Liabilities

The Group provided a guarantee, with no charge, to a bank for a loan with the amount of HK$61,675,000 granted to Tianjin Jinre Logistics Company Limited, in which the Group holds a 16% equity interest. No contingent liabilities were provided for in the financial statements as the directors believe it is not probable that an outflow will be required to settle the obligation.

Pledge on the Group's Assets

As at 31 December 2011, no assets were pledged by the Group to secure any banking facilities (31 December 2010: HK$17,647,000).

Employees and Remuneration

The Group had approximately 161 employees as at 31 December 2011 (31 December 2010: 226). Apart from basic remuneration, the Group also provides other employee benefits including medical scheme and provident fund schemes. In addition, the Group has a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Directors' Profile

The followings are the profile of the Directors of the Company (the "Directors").

EXECUTIVE DIRECTORS

Mr. Xue Jian

Mr. Xue Jian, aged 46, was appointed as a non-executive Director of the Company on 7 January 2009, and was re-designated as an executive Director on 06 January 2011. Mr. Xue received his master's degree in business administration from Zhongnan University of Finance, Economics, Politics and Law. Mr. Xue has over two decades of experience in the steelmaking industry and in the commercial sector in the People's Republic of China. He was the legal representative of Rizhao Steel Co., Ltd., and is a director of Rizhao Steel Holding Group Co., Ltd. The Rizhao Steel group of companies is one of the largest private steel makers in the People's Republic of China. Mr. Xue is also a director of Rizhao Bank (formerly known as Rizhao City Commercial Bank) and a director of Laishang Bank. Apart from his engagement in private sector, Mr. Xue is active in the pursuit for public causes, holding positions included the deputy director of Center for Studies on China's Circular Economy and Environment, the senior consultant of China Health & Medical Development Foundation, vice president of Shandong Enterprise Confederation, Shandong Entrepreneur Association, Shandong Federation of Industrial Economy and Shandong Association of Quality respectively.

Mr. Law Wing Chi, Stephen

Mr. Law Wing Chi, Stephen, aged 40, was appointed as an executive Director of the Company on 18 May 2011. Mr. Law has extensive experience in financial management and professional accounting. Prior to joining the Company, Mr. Law was the chief financial officer of Diamondlite Group, one of the leading jewelry manufacturers in the PRC. Having started his career as a professional accountant in an international accountancy firm, Mr. Law has undertaken key financial management positions in companies engaged in a variety of industries. Mr. Law is an associate member of the Hong Kong Institute of Certified Public Accountants and holds a Bachelor of Arts Degree in Accountancy from the City University of Hong Kong.

NON-EXECUTIVE DIRECTOR

Mr. Hu Yishi (Chairman)

Mr. Hu Yishi, aged 36, was appointed as an executive Director and the Chairman of the Company on 17 April 2007 and was re-designated as a non-executive Director on 29 December 2010. Mr. Hu is responsible for the Group's strategic planning including business objectives and directions. Mr. Hu has extensive experience in China affairs and business. He graduated from Shanghai International Tourism Vocational Technology School and is an executive director of Noble Jewelry Holdings Limited, a company listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Hu was previously an executive director of China Pipe Group Limited and Up Energy Development Group Limited (formerly known as Sun Media Group Holdings Limited), both companies are listed on the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tam Sun Wing

Mr. Tam Sun Wing, aged 54, was appointed as an independent non-executive Director of the Company on 14 December 2001. Mr. Tam is a professional accountant having more than 20 years of audit and business advisory experience of which 8 years were with an international accounting firm. He has also been in private practice since 1992. Mr. Tam is a director of FTW & Partners CPA Limited. He has extensive experience in providing business advisory service and conducting audits of listed and other companies in the businesses of toy manufacturing and trading, electronics, property development and holding, securities, insurance and retailing. Mr. Tam is a fellow member of Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong and also registered as a Certified Tax Advisor. Mr. Tam was admitted to the Master Degree of Science in Corporate Governance and Directorship from Hong Kong Baptist University.

Mr. Ng Ge Bun

Mr. Ng Ge Bun, aged 54, was appointed as an independent non-executive Director of the Company on 30 September 2004. Mr. Ng holds the Degree in Bachelor of Science and Degree in Bachelor in Laws. He obtained a postgraduate certificate in laws from The University of Hong Kong. He is a solicitor of the High Court of Hong Kong and currently serves as a partner of Tang, Lai & Leung Solicitors.

Mr. He Yi

Mr. He Yi, aged 39, was appointed as an independent non-executive Director of the Company on 18 May 2011. Mr He acts as the branch manager of Barclays Bank Shanghai Branch and has extensive experience in the financial industry. Mr. He started his career with Credit Agricole Indosuez in Shanghai and was the head of treasury department and financial institutions department of the Shanghai branch of First Sino Bank and the head of global markets, China and deputy general manager of the Shanghai branch of Australia and New Zealand Banking Ltd. Mr. He is a member of The Chinese Institute of Certified Public Accountants and a certified economist accredited by The Ministry of Personnel of China. Mr. He also holds a post graduate master degree of economics from Fudan University, Shanghai, China.

Corporate Governance Report

The Board and management of the Company are committed to maintaining high standards of corporate governance. Continuous efforts are made to review and enhance the Group's internal control policy and procedures in light of local and international developments to instill best practices.

The Board has set up procedures on corporate governance that comply with the requirements of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules.

The Company had complied with the CG Code throughout the year ended 31 December 2011 with the following deviations:

- A4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.

- A4.2 The Chairman and the Group Managing Director are not, whilst holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year in accordance with the Company's Bye-laws. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time.

The Board will keep these matters under review.

Following sustained development and growth of the Company, we will continue to monitor and revise the Company's corporate governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders of the Company.

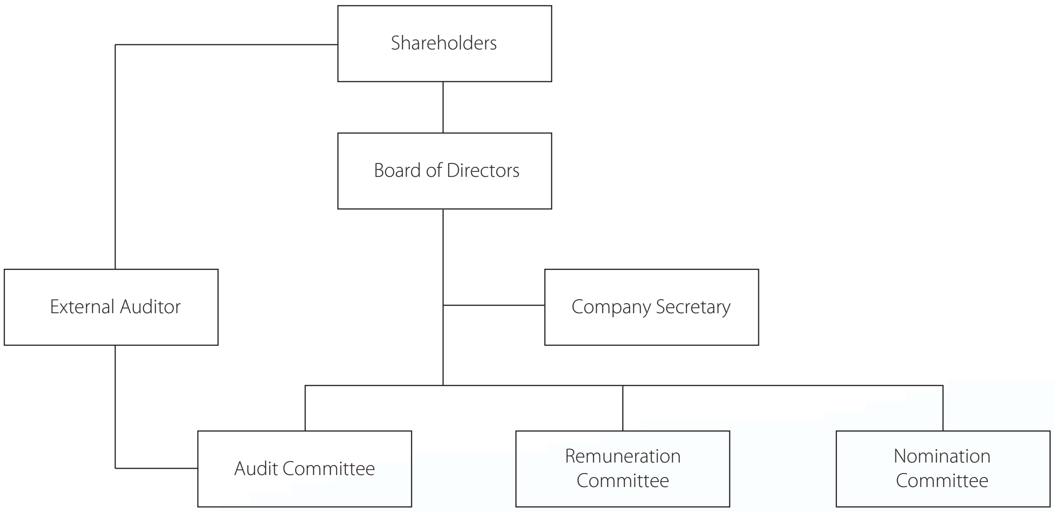
The Company is still looking for a suitable candidate to fill the vacancy of chief executive officer and further announcement will be made by the Company upon fulfillment of this requirement under the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

THE BOARD AND CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The Directors are responsible for leadership and control of the Group. The overall corporate governance structure of the Company is depicted in the following chart:



BOARD

(A) BOARD COMPOSITION

The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors, serving the important function of guiding the management.

The Board members during the year and up to the date of this annual report are as follows:–

Chairman
Mr. Hu Yishi* *(Chairman and non-executive Director)*

Executive Directors
Mr. Xue Jian
Mr. Law Wing Chi, Stephen (appointed on 18 May 2011)
Mr. Yip Kar Hang, Raymond (resigned on 06 January 2011)
Ms. Kwong Wai Man, Karina (resigned on 31 December 2011)

Non-executive Director
Mr. Hu Jin Xing* (resigned on 31 December 2011)

Independent non-executive Directors
Mr. Tam Sun Wing
Mr. Ng Ge Bun
Mr. He Yi (appointed on 18 May 2011)
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)

* Mr. Hu Yishi is the son of Mr. Hu Jin Xing

(B) ROLE AND FUNCTION

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Board has the full support of the chief executive officer and senior management to discharge its responsibilities. Appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against the directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group has been arranged by the Company.

For the year ended 31 December 2011, the Board:

1 resolved the change of Directors;

2 approved the disposal of subsidiaries;

3 reviewed the internal control system and risk management of the Group;

4 discussed the annual result of the Group for the year ended 31 December 2010 and the interim result of the Group for the period ended 30 June 2011 respectively;

5 considered the recommendation of any final dividend for the year ended 31 December 2010 and the book close period, if any;

6 approved the issuance of convertible bonds;

7 proposed re-election of Directors;

8 re-appointed Ernst & Young as auditor of the company, and discussed the auditors remuneration for the annual audit;

9 resolved the change of Independent non-executive Director;

10 reviewed the effects on the changes of the accounting standards and principles;

11 approved the composition of the Board;

12 approved change of bank signatories;

13 proposed the general mandates to issue and repurchase shares of the Company;

14 approved the exercise of share options under share options scheme.

(C) MEETING RECORDS

There were thirteen board meetings held for the year ended 31 December 2011.

The following was an attendance record of the Board meetings held by the Board during the year:

Board Members	Attendance at meetings held for the year ended 31 December 2011
Mr. Hu Yishi	8/13
Mr. Xue Jian	9/13
Mr. Law Wing Chi, Stephen	7/13
Mr. Tam Sun Wing	9/13
Mr. Ng Ge Bun	9/13
Mr. He Yi	4/13
Ms. Kwong Wai Man, Karina	13/13
Mr. Hu Jin Xing	7/13
Mr. Ko Ming Tung, Edward	5/13

(D) INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2011, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive Directors are independent.

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman provides leadership for the Board and the Chief Executive Officer has overall chief executive responsibility for the Group's business development and day-to-day management generally.

The division of the responsibilities between the Chairman and Chief Executive Officer is clearly established and set out in the Code of Corporate Governance of the Company. During the year, Mr. Hu Yishi was the Chairman of the Company.

The Company is still looking for a suitable candidate to fill the vacancy of chief executive officer, further announcement will be made by the Company upon fulfillment of this requirement under the Listing Rules.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:

- Audit Committee
- Remuneration Committee
- Nomination Committee

Each Board Committee makes decisions on matters within its terms of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

(A) AUDIT COMMITTEE

On 14 December 2001, the Audit Committee had been established. It currently consists of three independent non-executive Directors.

Composition of Audit Committee members for the year ended 31 December 2011:

Mr. Tam Sun Wing *(Chairman)*
Mr. Ng Ge Bun
Mr. He Yi (appointed on 18 May 2011)
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)

Role and function

The Audit Committee is mainly responsible for:

1 discussing with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;

2 reviewing the Company's interim and annual financial statements before submission to, and providing advice and comments thereon to the Board of Directors;

3 considering the appointment of external auditors and their audit fees;

4 discussing problems and reservations arising from the interim and final audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary); and

5 assessing the risk environment and review internal control procedure manual of the Group.

Meeting Record

The Audit Committee met six times during the year to discuss and review the interim and annual results, and to review the internal control procedures of the Group.

The following was an attendance record of the Audit Committee meetings held for the year ended 31 December 2011:

Committee member	**Attendance at meetings held for the year ended 31 December 2011**
Mr. Tam Sun Wing	6/6
Mr. Ng Ge Bun	6/6
Mr. He Yi	4/6
Mr. Ko Ming Tung, Edward	2/6

During the meetings, the Audit Committee discussed the following matters:–

(1) Financial Reporting

The Audit Committee met with the external auditors to discuss the interim and annual financial statements and system of control of the Group. The auditors, the Chief Financial Officer of the Company were also in attendance to answer questions on the financial results.

Where there were questions on the financial statements and system of control of the Group reviewed by the Audit Committee, the management of the Company would provide breakdown, analysis and supporting documents to the Audit Committee members in order to ensure that the Audit Committee members were fully satisfied and make proper recommendation to the Board.

(2) External Auditors

The appointment of the external auditors and the audit fee were considered by the Audit Committee and recommendations were made to the Board on the selection of external auditors of the Company.

(3) Internal Control

The sufficiency and efficiency of the internal control system and risk management.

(B) REMUNERATION COMMITTEE

The Remuneration Committee was established on 21 March 2005. It currently consists of one executive Director and three independent non-executive Directors.

Composition of Remuneration Committee members for the year ended 31 December 2011:

Mr. Tam Sun Wing *(Chairman)*
Mr. Law Wing Chi, Stephen (appointed on 18 May 2011)
Mr. He Yi (appointed on 18 May 2011)
Mr. Ng Ge Bun (appointed on 31 May 2011)
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)
Ms. Kwong Wai Man, Karina (resigned on 31 December 2011)

Role and function

The Remuneration Committee is mainly responsible for:

1. reviewing any significant changes in human resources policies and structure made in line with the then prevailing trend and business requirements;

2. making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

3. determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors;

4. considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

5. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

6. reviewing and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. reviewing and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

8. ensuring that no Director or any of his associates is involved in deciding his own remuneration; and

9. advising the shareholders on how to vote in respect of any service contract of Director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

Where circumstances are considered appropriate, some Remuneration Committee decisions are approved by way of written resolutions passed by all the committee members.

For the year ended 31 December 2011, there were seven meetings held. The following was an attendance record of the Remuneration Committee meeting held for the year ended 31 December 2011:

Committee member	**Attendance at meetings held for the year ended 31 December 2011**
Mr. Tam Sun Wing	7/7
Mr. Law Wing Chi, Stephen	4/7
Mr. He Yi	4/7
Mr. Ng Ge Bun	2/7
Mr. Ko Ming Tung	3/7
Ms. Kwong Wai Man, Karina	5/7

During the meeting, the Remuneration Committee discussed the remuneration packages of Directors and senior management with reference to the prevailing market conditions and reviewed the incentive scheme for all staff to enhance their motivation.

(C) NOMINATION COMMITTEE

The Nomination Committee was established on 13 April 2007. It currently consists of one executive Director and three independent non-executive Directors.

Composition of Nomination Committee members for the year ended 31 December 2011:

Mr. Ng Ge Bun *(Chairman)*
Mr. Law Wing Chi, Stephen (appointed on 18 May 2011)
Mr. He Yi (appointed on 18 May 2011)
Mr. Tam Sun Wing (appointed on 31 May 2011)
Mr. Yip Kar Hang, Raymond (resigned on 06 January 2011)
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)
Ms. Kwong Wai Man, Karina (appointed 06 January 2011 on and resigned on 31 December 2011)

Role and function

The Nomination Committee's terms of reference includes those specific duties as set out in the code provision A.4.5 of the CG Code in September 2005. Pursuant to its terms of reference, the Nomination Committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. The Nomination Committee should meet at least once a year and when the need arises.

The Nomination Committee is responsible for identifying, recruiting and evaluating new nominees to the Board and the assessment of the qualifications of the directors. The criteria adopted to select and recommend candidates for directorship includes the candidate's experience, professional knowledge, integrity, time commitment and other statutory or regulatory requirements.

For the year ended 31 December 2011, there were seven meetings held. The following was an attendance record of the Nomination Committee meeting held for the year ended 31 December 2011:

Committee member	Attendance at meetings held for the year ended 31 December 2011
Mr. Ng Gen Bun	7/7
Mr. Law Wing Chi, Stephen	4/7
Mr. He Yi	4/7
Mr. Tam Sun Wing	2/7
Mr. Ko Ming Tung, Edward	3/7
Ms. Kwong Wai Man, Karina	5/7

During the meeting, the Nomination Committee reviewed the composition of the Board member.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholder's interest. To do so, the Company maintains on-going dialogue with shareholders to communicate with them and encourage their participation – through annual general meetings or other general meetings.

Registered shareholders are notified by post for the shareholders' meetings. The notice of general meeting contains the agenda, the proposed resolutions and a postal voting form.

Any registered shareholders are entitled to attend the annual and special general meetings, provided that their shares have been recorded in the Register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return to the Share Registrar the proxy form enclosed with the notice of general meeting to give proxy to their representatives, another shareholder or Chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:

Hotline no. : 2804-2221

By post : 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

EXTERNAL AUDITORS

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the shareholders of the Company, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditors' report.

Apart from the provision of annual audit services, the Group's external auditors also provided interim review of the Group's results and taxation advisory service of the Group.

For the year ended 31 December 2011, Ernst & Young ("EY"), the external auditors provided following services to the Group:

	Ernst & Young *HK$'000*
Audit services	4,500
Taxation advisory services	48

INTERNAL CONTROL

The Audit Committee assisted the Board to perform its duties to maintain an effective and sound internal control system for the Group. The Audit Committee reviewed the Group's procedures and workflow for the financial, operational and compliance, and also the risk assessment and its initiatives for business risks management and control. Recommendations will also put forward to the Board for consideration and approval.

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans. Regular meetings are also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication.

For the year ended 31 December 2011, the following shareholder meeting was held by the Company:

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
17 May 2011	Board Room, 1/F, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong	Annual General Meeting	1. To adopt the audited financial statements and the reports of the Directors and auditors 2. To re-elect Directors and to authorize the Board of Directors to fix their remuneration 3. To re-appoint Ernst & Young as the auditors and authorize the Board to determine their remuneration 4. To approve the general mandates to issue and repurchase shares of the Company	By poll

FINANCIAL CALENDAR FOR 2012

Event	Proposed Date
Announcement of 2011 annual results	23 March 2012
Annual General Meeting	May 2012
Announcement of interim result	Late August 2012

The Directors present their annual report and audited financial statements for the year ended 31 December 2011.

PRINCIPLE ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries is set out in note 21 to the audited financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Group and the Company at that date are set out in the financial statement from page 25 to 103.

The Board does not recommend the payment of any dividend for the year ended 31 December 2011 (2010: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate is set out on page 104. This summary does not form part of the audited financial statement.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in notes 16 to the audited financial statements.

SHARE CAPITAL, SHARE OPTIONS, AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options, and convertible bonds during the year are set out in notes 37, 38 and 35 to the audited financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2011, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 39 to the audited financial statement and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At as 31 December 2011, the Company does not have any distributable reserves.

CHARITABLE CONTRIBUTION

During the year, no charitable donation was made (2010: HK$1,250,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 47% of the total sales for the year and sales to the largest customer included therein amounted to 45%. Purchases from the Group's five largest suppliers accounted for 75% of the total purchases for the year and purchases from the largest supplier included therein amounted to 44%. None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

Mr. Xue Jian (re-designated on 06 January 2011)
Mr. Law Wing Chi, Stephen (appointed on 18 May 2011)
Mr. Yip Kar Hang, Raymond (resigned on 06 January 2011)
Mr. Kwong Wai Man, Karina (resigned on 31 December 2011)

Non-executive Directors:

Mr. Hu Yishi
Mr. Hu Jin Xing (resigned on 31 December 2011)

Independent non-executive Directors:

Mr. Tam Sun Wing
Mr. Ng Ge Bun
Mr. He Yi (appointed on 18 May 2011)
Mr. Ko Ming Tung Edward (resigned on 31 May 2011)

The Directors of the Company, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with bye-laws 87(1) and 87(2) of the Company's Bye-laws.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 7 to 8 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No Director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTOR'S REMUNERATION

Subject to shareholders' approval at annual general meetings authorising the Board, remuneration of Directors are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2011, the interests of the Directors and their associates in the shares underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position – ordinary shares of HK$0.10 each of the Company

Name of Director	Capacity	Number of shares held as corporate Interests	Percentage of the issued share capital of the Company
Mr. Hu Yishi	Personal	1,300,000,000	11.91%

Long positions – share options

Name of Directors	Capacity	Number of options held	Number of underlying shares
Mr. Hu Yishi	Beneficial owner	94,260,000	94,260,000
Mr. Xue Jian	Beneficial owner	94,260,000	94,260,000
Mr. Ng Ge Bun	Beneficial owner	1,000,000	1,000,000
Mr. Tam Sun Wing	Beneficial owner	1,000,000	1,000,000

Save as disclosed above, as at 31 December 2011, none of the Directors or chief executive had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' and chief executive's interests and short positions in shares, underlying shares above and in the section "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 38 to the audited financial statements.

CONTRACT OF SIGNIFICANCE

No contract of significance 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST IN SHARES AND UNDERLYING SHARES AND CONVERTIBLE BONDS

At as 31 December 2011, the following interests of 5% or more of the issued share capital and share options, convertible bonds of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(a) Ordinary shares of HK$0.10 each of the Company

Name of shareholders	Capacity	Number of ordinary shares held	Percentage of issued share capital
Mr. Du Shuang Hua	Interest of controlled corporation	708,000,000	6.49%
Happy Sino International Limited [1]	Beneficial interest	708,000,000	6.49%
Mr. Zhang He Yi	Beneficial interest	1,400,000,000	12.83%
Mr. Qi Shi An	Beneficial interest	600,000,000	5.50%
Mr. Lu Xiao Mei	Interest of controlled corporation	753,190,000	6.90%
Sincere Profit Group Limited [2]	Beneficial interest	753,190,000	6.90%
Mr. Sun Yong Feng	Beneficial interest	148,000,000	1.36%
Ms. Meng Ya[3]	Interest of spouse	148,000,000	1.36%

1 Mr. Du Shuang Hua and Mr. Zhang He Yi beneficially owns 85% and 15% interest respectively in the issued share capital of Happy Sino International Limited.

2 Ms. Lu Xiao Mei beneficially owns 100% interest in the issued share capital of Sincere Profit Group Limited.

3 Ms. Meng Ya is the spouse of Mr. Sun Yong Feng. Ms. Meng Ya is deemed to be interested in the 148,000,000 shares in which Mr. Sun Yong Feng is interested.

(b) Long positions – convertible bonds

Name	Capacity	Amount of convertible bonds	Number of underlying shares
Ga Leung Investment Company Limited [1,2]	Beneficial interest	280,000,000	1,866,666,666
Mr. Sun Yong Feng	Interest of controlled corporation	280,000,000	1,866,666,666
Ms. Meng Ya[3]	Interest of spouse	280,000,000	1,866,666,666

1 Mr. Sun Yong Feng beneficially owns 100% interest in the issued capital of Ga Leung Investment Company Limited.

2 The Company and Ga Leung Investment Company Limited entered into a subscription agreement in relation to the convertible bonds on 19 December 2011. On 30 December 2011, the Company issued convertible bonds in the amount of HK$280,000,000 to Ga Leung Investment Company Limited, according to the convertible bonds subscription agreement dated 19 December 2011. The convertible bonds carry interest at 3.5% per annum. The holder has the option to convert the convertible bonds into ordinary shares of HK$0.10 per share of the Company at a conversion price of HK$0.15 per share.

3 Ms. Meng Ya is the spouse of Mr. Sun Yong Feng. Ms. Meng Ya is deemed to be interested in the 1,866,666,666 Underlying Shares in which Mr. Sun Yong Feng is interested.

Save as disclosed above, as at 31 December 2011, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on page 9 to 18 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float throughout the year ended 31 December 2011.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events after the reporting period.

EMOLUMENT POLICY

Emolument policy on the remuneration of the Directors and the employees of the Group is reviewed periodically and determined by reference to market terms, Company performance and individual qualifications and performance.

AUDITORS

The Financial Statements have been audited by Ernst & Young ("EY"). EY shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of EY as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Law Wing Chi, Stephen
23 March 2012

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Kai Yuan Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Kai Yuan Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 25 to 103, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of 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 Certificated 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 Company and of the Group as at 31 December 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 23 to the consolidated financial statements, which discloses details of restructuring agreements entered into by the Group's three associates.

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

23 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

(Prepared in accordance with HKFRSs)

	Notes	2011 HK$'000	2010 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**330,994**	120,051
Cost of sales		**(326,864)**	(137,261)
Gross profit/(loss)		**4,130**	(17,210)
Other income and gains	6	**11,807**	7,306
Other expenses	7	**(1,694)**	(151,180)
Administrative expenses		**(70,460)**	(132,492)
Finance costs	8	**(14,428)**	(28,419)
Share of profits and losses of:			
A jointly-controlled entity	22	**1,608**	612
Associates		**(329,964)**	293,525
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	9	**(399,001)**	(27,858)
Income tax credit/(expense)	11	**22,108**	(2,213)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(376,893)**	(30,071)
DISCONTINUED OPERATIONS			
(Loss)/profit for the year from discontinued operations	12	**(23,589)**	7,042
LOSS FOR THE YEAR		**(400,482)**	(23,029)
Attributable to:			
Owners of the Company	14	**(388,945)**	101,248
Non-controlling interests		**(11,537)**	(124,277)
		(400,482)	(23,029)
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	15		
Basic			
– For (loss)/profit for the year		**HK$(4 cents)**	HK$1 cent
– For (loss)/profit from continuing operations		**HK$(4 cents)**	HK$1 cent
Diluted			
– For (loss)/profit for the year		**HK$(4 cents)**	HK$1 cent
– For (loss)/profit from continuing operations		**HK$(4 cents)**	HK$1 cent

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

(Prepared in accordance with HKFRSs)

	2011	2010
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(400,482)**	(23,029)
OTHER COMPREHENSIVE INCOME		
Share of other comprehensive income of associates	**–**	811
Exchange differences on translation of foreign operations	**174,432**	132,514
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**174,432**	133,325
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(226,050)**	110,296
Attributable to:		
Owners of the Company	**(214,513)**	234,573
Non-controlling interests	**(11,537)**	(124,277)
	(226,050)	110,296

Consolidated Statement of Financial Position

As at 31 December 2011

(Prepared in accordance with HKFRSs)

	Notes	**2011** **HK$'000**	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**750,708**	712,251
Investment properties	17	**–**	98,885
Prepaid land lease payments	18	**44,137**	44,904
Goodwill	19	**–**	–
Intangible assets	20	**104,517**	107,060
Investments in a jointly-controlled entity	22	**94,379**	116,119
Investments in associates	23	**2,968,591**	3,150,183
Available-for-sale investments	24	**5,736**	5,471
Other long term assets		**–**	205
Total non-current assets		**3,968,068**	4,235,078
CURRENT ASSETS			
Inventories	25	**8,405**	3,983
Trade receivables	26	**70,884**	183
Other receivables and prepayments	27	**17,216**	12,691
Prepaid land lease payments	18	**3,197**	3,370
Amount due from a jointly-controlled entity	28	**10,485**	–
Amount due from an associate	28	**–**	2,000
Amounts due from related companies	29	**133,271**	133,086
Dividend receivable from a jointly-controlled entity	22	**79,978**	58,671
Financial assets at fair value through profit or loss		**–**	24
Pledged bank deposits	30	**–**	17,647
Cash and cash equivalents	30	**459,831**	208,183
Total current assets		**783,267**	439,838
Total assets		**4,751,335**	4,674,916
CURRENT LIABILITIES			
Trade and bills payables	31	**28,927**	47,465
Other payables and accruals	32	**100,611**	83,646
Receipt in advance		**93,705**	88,932
Amount due to an associate	28	**51,208**	–
Amounts due to related companies	29	**56,932**	40,374
Obligations under finance leases		**–**	37
Interest-bearing bank and other borrowings	33	**19,081**	71,469
Loan from a related company	34	**113,676**	104,273
Income tax payable		**39,874**	39,470
Convertible bonds – current portion	35	**–**	232,357
Total current liabilities		**504,014**	708,023
NET CURRENT ASSETS/(LIABILITIES)		**279,253**	(268,185)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,247,321**	3,966,893

Consolidated Statement of Financial Position

As at 31 December 2011

(Prepared in accordance with HKFRSs)

	Notes	2011 HK$'000	2010 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,247,321**	3,966,893
NON-CURRENT LIABILITIES			
Convertible bonds – non-current portion	35	**241,085**	–
Obligations under finance leases		**–**	144
Interest-bearing bank and other borrowings	33	**2,603**	8,533
Deferred tax liabilities	36	**149,927**	166,939
Total non-current liabilities		**393,615**	175,616
Net assets		**3,853,706**	3,791,277
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital	37	**1,091,221**	956,849
Equity component of convertible bonds	35	**38,915**	109,072
Reserves	39	**2,448,139**	2,438,388
		3,578,275	3,504,309
Non-controlling interests		**275,431**	286,968
Total equity		**3,853,706**	3,791,277

Approved on behalf of the board of directors:

Mr. Xue Jian
Director

Mr. Law Wing Chi, Stephen
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

(Prepared in accordance with HKFRSs)

		Attributable to owners of the Company									
		Issued capital	Equity component of convertible bonds	Share premium*	Share option reserve*	Translation reserve*	Retained profits*	Other reserve*	Total	Non-controlling interests	Total equity
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010		942,733	109,072	640,784	17,226	50,548	1,423,152	12,239	3,195,754	411,245	3,606,999
Total comprehensive income/(loss) for the year		–	–	–	–	132,514	101,248	811	234,573	(124,277)	110,296
Equity-settled share option arrangements	38	–	–	–	45,444	–	–	–	45,444	–	45,444
Exercised equity-settled share options	38	14,116	–	26,039	(11,617)	–	–	–	28,538	–	28,538
At 31 December 2010		956,849	109,072	666,823	51,053	183,062	1,524,400	13,050	3,504,309	286,968	3,791,277
Total comprehensive income/(loss) for the year		–	–	–	–	174,432	(388,945)	–	(214,513)	(11,537)	(226,050)
Issue of convertible bonds	35	–	38,915	–	–	–	–	–	38,915	–	38,915
Conversion of convertible bonds	35	130,000	(109,072)	219,673	–	–	–	–	240,601	–	240,601
Transfer of share option reserve upon the forfeiture of share options	38	–	–	–	(21,669)	–	21,669	–	–	–	–
Exercised equity-settled share options	38	4,372	–	8,228	(3,637)	–	–	–	8,963	–	8,963
At 31 December 2011		**1,091,221**	**38,915**	**894,724**	**25,747**	**357,494**	**1,157,124**	**13,050**	**3,578,275**	**275,431**	**3,853,706**

* These reserve accounts comprise the consolidated reserves of HK$2,448,139,000 (2010: HK$2,438,388,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

(Prepared in accordance with HKFRSs)

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(423,630)**	(19,344)
From continuing operations		**(399,001)**	(27,858)
From discontinued operations	12	**(24,629)**	8,514
Adjustments for:			
Finance costs		**15,126**	29,683
Share of profits of a jointly-controlled entity		**(1,608)**	(612)
Share of (losses)/profits of associates		**329,964**	(293,525)
Equity-settled share option expenses		**–**	45,444
Loss on disposal of items of property, plant and equipment		**1,694**	31
Loss on disposal of investment properties		**–**	1,259
Loss on disposal of subsidiaries	42	**9,795**	–
Acquisition of financial assets at fair value through profit or loss		**–**	(24)
Changes in fair value of investment properties	12	**12,649**	(10,171)
Goodwill impairment		**–**	10,757
Impairment of amounts due from related companies		**–**	140,423
Depreciation	16	**49,887**	33,913
Recognition of prepaid land lease payments	18	**3,211**	3,292
Amortisation of intangible assets	20	**7,072**	8,255
Interest income		**(688)**	(1,753)
		3,472	(52,372)
(Increase)/decrease in inventories		**(4,422)**	407
(Increase)/decrease in trade receivables		**(70,701)**	9,461
(Increase)/decrease in other receivables and prepayments		**(5,828)**	6,097
(Decrease)/increase in trade and bills payables		**(20,432)**	12,253
Decrease/(increase) in pledged bank deposits		**17,647**	(16,936)
Increase in other payables and accruals		**17,111**	25,197
Increase in receipt in advance		**245**	27,327
Cash (used in)/generated from operations		**(62,908)**	11,434
Net cash flows (used in)/generated from operating activities		**(62,908)**	11,434

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

(Prepared in accordance with HKFRSs)

	Notes	2011 HK$'000	2010 HK$'000
Net cash flows (used in)/generated from operating activities		**(62,908)**	11,434
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(55,497)**	(144,782)
Purchases of intangible assets	20	**–**	(500)
Purchases of other long term assets		**–**	(205)
Disposal of items of property, plant and equipment		**262**	2,806
Disposal of investment properties		**–**	5,715
Disposal of subsidiaries	42	**78,903**	–
Return of investment from a jointly-controlled entity		**–**	10,588
Interest received		**688**	1,753
Dividend received from associates in relation to pre-acquisition retained profits attributable to the former shareholders		**–**	426,423
Decrease in amount due from an associate		**2,000**	–
Increase/(decrease) in amounts due from related companies		**(185)**	10,356
Net cash flows generated from investing activities		**26,171**	312,154
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/(decrease) in amounts due to related companies		**14,145**	(13,029)
Increase in amount due to an associate		**49,938**	–
Repayment of obligations under finance leases		**–**	(80)
New bank loans		**12,335**	42,204
Issuance of convertible bonds	35	**280,000**	–
New loans from a related company		**–**	2,707
Repayment of bank loans		**(73,223)**	(52,245)
Interest paid		**(6,882)**	(13,667)
Cash proceeds from exercise of share options	38	**8,963**	28,538
Dividends paid to former shareholders of a subsidiary		**–**	(416,955)
Net cash flows generated from/(used in) financing activities		**285,276**	(422,527)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**248,539**	(98,939)
Cash and cash equivalents at beginning of year	30	**208,183**	305,219
Effect of foreign exchange rate changes, net		**3,109**	1,903
CASH AND CASH EQUIVALENTS AT END OF YEAR	30	**459,831**	208,183

Statement of Financial Position

As at 31 December 2011

(Prepared in accordance with HKFRSs)

	Notes	**2011 HK$'000**	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**97**	150
Investments in subsidiaries	21	**541,988**	541,988
Total non-current assets		**542,085**	542,138
CURRENT ASSETS			
Amounts due from subsidiaries	21	**752,349**	611,056
Other receivables and prepayments	27	**913**	825
Cash and cash equivalents	30	**303,147**	111,267
Total current assets		**1,056,409**	723,148
CURRENT LIABILITIES			
Amounts due to subsidiaries	21	**253,407**	197,815
Other payables and accruals	32	**3,265**	3,122
Convertible bonds – current portion	35	**–**	232,357
Total current liabilities		**256,672**	433,294
NET CURRENT ASSETS		**799,737**	289,854
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,341,822**	831,992
NON-CURRENT LIABILITIES			
Convertible bonds	35	**241,085**	–
Total non-current liabilities		**241,085**	–
Net assets		**1,100,737**	831,992
EQUITY			
Issued capital	37	**1,091,221**	956,849
Equity component of convertible bonds	35	**38,915**	109,072
Reserves	39	**(29,399)**	(233,929)
Total equity		**1,100,737**	831,992

Approved on behalf of the board of directors:

Mr. Xue Jian
Director

Mr. Law Wing Chi, Stephen
Director

1. CORPORATE INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda, and principal place of business is 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding, including material investments in associates engaged in steel and steel products manufacturing and trading in the People's Republic of China ("PRC"), as detailed in note 23. Its subsidiaries were principally engaged in the supply of heat and property investment, as detailed in note 21.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention, except for investment properties, which have been measured at fair value, as explained in the accounting policies set out below.

These financial statements are presented in Hong Kong dollars for the convenience of users of the financial statements as the Company is a company listed on the Stock Exchange and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKAS 1 included in *Improvements to HKFRSs 2010*, the adoption of the above new and revised HKFRSs has had no significant impact on these financial statements.

The principal effects of these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 46 to the consolidated financial statements.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendment most applicable to the Group are as follows:

HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and removal of Fixed Dates for First-time Adopters* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Initial application of HKFRS9* [6]
HKFRS 9	*Financial Instruments* [6]
HKFRS 10	*Consolidated Financial Statements* [4]
HKFRS 11	*Joint Arrangements* [4]
HKFRS 12	*Disclosure of Interests in Other Entities* [4]
HKFRS 13	*Fair Value Measurement* [4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [2]
HKAS 19 (2011)	*Employee Benefits* [4]
HKAS 27 (2011)	*Separate Financial Statements* [4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine* [4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Group controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) If the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture’s registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group’s investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group’s share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group’s share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group’s investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates, is included as part of the Group's investments in associates and is not individually tested for impairment.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired assets.

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

Related parties

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

(a) the party is a person or a close member of that person's family and 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 Group or of a parent of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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, and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(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).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

	Useful life *(years)*	**Depreciation rate**
Heat supply facilities	18	5.28%
Buildings	18–27	3.33–5.28%
Leasehold improvements	2–5	20–50%
Motor vehicles	5	18–20%
Office equipment	5–6	15–20%

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress representing property, plant and equipment under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

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

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

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The useful lives of intangible assets are shown as follows:

	Useful life *(years)*
Existing fee contract	18
Existing construction contracts	2
Operating rights	18

Leases

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

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

Loans and receivables

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

Available-for-sale financial assets

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

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the asset is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the asset is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

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

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

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, an amount due to an associate, amounts due to related companies, a loan from a related company, interest-bearing loans and borrowings, and convertible bonds.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

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

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

Convertible bonds

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

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

(b) from the rendering of services:

- revenue from heat energy supply is recognised when heat is provided;

- revenue from heat energy supply facilities' connection is recognised on the stage of completion basis, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The stage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 38 to the financial statements.

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

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

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

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

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

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium accounts.

In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account. Options which are cancelled prior to their exercise date or lapse are deleted from the register of outstanding options. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits/accumulated losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Pension scheme

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., 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. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The functional currency of the Company is Renminbi ("RMB"). These financial statements are presented in Hong Kong dollars for the convenience of the users of the financial statements as the Company is a company listed in Hong Kong. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currency of the Company and certain subsidiaries, associates and a jointly-controlled entity of the Group are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and the subsidiaries incorporated in the PRC are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and the subsidiaries throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

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 described below.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties (continued)

The principal assumptions for the Group's estimation of the fair value include those related to current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences. The carrying amount of investment properties at 31 December 2011 was nil due to disposal of the subsidiaries holding investment properties (2010: approximately HK$98,885,000). More details are given in note 17.

Estimation of fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of estimation is required in establishing fair values. The estimations includes considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

Depreciation

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Useful lives are determined based on management's past experience with similar assets and estimated changes in technologies. If the estimated useful lives changed significantly, adjustment of depreciation will be provided in the future year. The carrying amount of property, plant and equipment at 31 December 2011 was approximately HK$750,708,000 (2010: approximately HK$712,251,000). More details are given in note 16.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As at 31 December 2011 and 2010, management estimated there were no adequate future taxable profits to utilise the unused tax losses. The unused tax losses are disclosed in note 36.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The impairment of non-current assets (other than goodwill) of the Group was nil (2010: nil).

4. OPERATING SEGMENT INFORMATION

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

(a) the heat energy supply segment is engaged in the production and supply of heat energy, installation, engineering and maintenance of heating systems and management of heating pipes, covering a vast area of heat energy supply within the municipality of Tianjin;

(b) the property investment segment holds interests in a jointly-controlled entity, located in Shanghai, engaged in underground shopping plazas; and

(c) the steel manufacturing and trading segment is engaged in iron and steel products trading and holds significant interests in three associates, located in Shandong Province, engaged in steel and steel product manufacturing and trading.

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

Segment assets exclude pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, convertible bonds, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2011	Heat energy supply *HK$'000*	Property investment *HK$'000*	Steel manufacturing and trading *HK$'000*	Total *HK$'000*
Segment revenue				
Sales to external customers	181,966	–	149,028	330,994
Revenue from continuing operations				330,994
Segment results	(21,452)	1,608	(328,925)	(348,769)
Reconciliation:				
Interest income				688
Corporate and other unallocated expenses				(36,492)
Finance costs				(14,428)
Loss before tax from continuing operations				(399,001)
Segment assets	1,001,099	184,842	3,039,189	4,225,130
Reconciliation:				
Corporate and other unallocated assets				526,205
Total assets				4,751,335
Segment liabilities	327,573	–	–	327,573
Reconciliation:				
Corporate and other unallocated liabilities				570,056
Total liabilities				897,629

Year ended 31 December 2011	Heat energy supply *HK$'000*	Property investment *HK$'000*	Steel manufacturing and trading *HK$'000*	Corporate and unallocated *HK$'000*	Total *HK$'000*
Other segment information					
Share of profits/(losses) of:					
A jointly-controlled entity	–	1,608	–	–	1,608
Associates	(1)	–	(329,963)	–	(329,964)
Depreciation and amortisation	57,693	–	–	2,477	60,170
Investments in associates	286	–	2,968,305	–	2,968,591
Investments in a jointly-controlled entity	–	–	–	94,379	94,379
Capital expenditure (i)	55,918	–	–	3,845	59,763

(i) Capital expenditure consists of additions to property, plant and equipment and intangible assets.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2010	Heat energy supply HK$'000	Property investment HK$'000	Steel manufacturing and trading HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	120,051	–	–	120,051
Revenue from continuing operations				120,051
Segment results	(186,888)	612	292,314	106,038
Reconciliation:				
Interest income				1,725
Corporate and other unallocated expenses				(107,202)
Finance costs				(28,419)
Loss before tax from continuing operations				(27,858)
Segment assets	947,395	174,790	3,149,909	4,272,094
Reconciliation:				
Corporate and other unallocated assets				283,778
Assets related to discontinued operations				119,044
Total assets				4,674,916
Segment liabilities	253,988	–	–	253,988
Reconciliation:				
Corporate and other unallocated liabilities				623,896
Liabilities related to discontinued operations				5,755
Total liabilities				883,639

Year ended 31 December 2010	Heat energy supply HK$'000	Property investment HK$'000	Steel manufacturing and trading HK$'000	Corporate and unallocated HK$'000	Total HK$'000
Other segment information					
Share of profits and losses of:					
A jointly-controlled entity	–	612	–	–	612
Associates	(22)	–	293,547	–	293,525
Impairment losses recognised in the income statement	(151,180)	–	–	–	(151,180)
Depreciation and amortisation	42,540	–	–	1,601	44,141
Investments in associates	274	–	3,149,909	–	3,150,183
Investments in a jointly-controlled entity	–	–	–	116,119	116,119
Capital expenditure	138,244	–	–	6,538	144,782

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2011 HK$'000	2010 HK$'000
Asia other than Mainland China	**149,028**	–
Mainland China	**181,966**	120,051
	330,994	120,051

The revenue information from continuing operations above is based on the location of the customers.

(b) Non-current assets

	2011 HK$'000	2010 HK$'000
Hong Kong	**2,235**	5,786
Mainland China	**3,960,097**	4,223,821
	3,962,332	4,229,607

The non-current asset information from continuing operations above is based on the location of assets and excludes available-for-sale investments.

Information about a major customer

Revenue from continuing operations of approximately HK$149,028,000 was derived from sales by the steel manufacturing and trading investment segment to a single customer (2010: no revenue from transactions with a single customer exceeded 10% of the total revenue).

5. REVENUE

Revenue represents the value of sales of goods, heat energy supply income, heat energy supply facilities connection fee and other services fees during the year. An analysis for the Group's revenue is as follows:

	2011 HK$'000	2010 HK$'000
Sales of goods	**149,028**	–
Heat energy supply	**156,969**	106,248
Heat energy supply facilities connection fee	**23,792**	13,343
Other services fees	**1,205**	460
	330,994	120,051

6. OTHER INCOME AND GAINS

	2011 *HK$'000*	2010 *HK$'000*
Other income		
Bank interest income	688	1,725
Gains		
Government grants on value added tax ("VAT") refund	7,298	4,781
Government grants on heat energy supply	3,821	–
Others	–	800
	11,807	7,306

7. OTHER EXPENSES

	2011 *HK$'000*	2010 *HK$'000*
Impairment of amounts due from related companies *(note 29)*	–	140,423
Impairment of goodwill *(note 19)*	–	10,757
Loss on disposal of items of property, plant and equipment	1,694	–
	1,694	151,180

8. FINANCE COSTS

	2011 *HK$'000*	2010 *HK$'000*
Interest on bank borrowings – wholly repayable within five years	2,366	4,221
Interest on convertible bonds *(note 35)*	12,062	24,070
Interest on other borrowings	–	128
Interest on a loan from a related company *(note 46)*	4,266	3,684
	18,694	32,103
Less: amounts capitalised in construction in progress	(4,266)	(3,684)
	14,428	28,419

9. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

The Group's loss before tax is arrived at after charging/(crediting):

	2011	2010
	HK$'000	*HK$'000*
Cost of heat energy supply	**183,938**	137,261
Cost of goods sold	**142,926**	–
Depreciation of property, plant and equipment *(note 16)*	**49,887**	33,913
Amortisation of intangible assets *(note 20)*	**7,072**	8,255
Amortisation of land lease payments *(note 18)*	**3,211**	3,292
Impairment of goodwill *(note 19)*	**–**	10,757
Minimum lease payments under operating leases:		
Land and buildings	**2,645**	1,795
Loss on disposal of items of property, plant and equipment *(note 7)*	**1,694**	–
Impairment of amounts due from related companies *(note 29)*	**–**	140,423
Auditors' remuneration	**4,500**	4,700
Interest income *(note 6)*	**(688)**	(1,725)
Employee benefit expense (including directors' remuneration *(note 10)*)		
Wages, salaries and other benefits	**30,628**	32,477
Retirement scheme contributions *(note 10)*	**174**	197
Equity-settled share option expense	**–**	45,444

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

	2011	2010
	HK$'000	*HK$'000*
Fees	**1,935**	2,000
Other remuneration:		
Salaries and other benefits	**13,165**	23,286
Retirement scheme contributions	**174**	197
Equity-settled share option expense	**–**	28,263
	13,339	51,746
Total remuneration	**15,274**	53,746

No share option was granted in 2011. In 2010, all the directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 38 to the financial statements. The fair value of these options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements is included in the above directors' remuneration disclosures.

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

The remuneration paid or payable to each of the ten (31 December 2010: eight) directors is as follows:

2011	Fees HK$'000	Salaries and other benefits HK$'000	Retirement scheme contributions HK$'000	Equity-settled share option expense HK$'000	Total HK$'000
Executive directors:					
Mr. Yip Kar Hang, Raymond (i)	3	2,298	80	–	2,381
Mr. Xue Jian (ii)	200	2,568	–	–	2,768
Mr. Law Wing Chi, Stephen (iii)	124	1,510	11	–	1,645
Ms. Kwong Wai Man, Karina (iv)	200	1,589	71	–	1,860
	527	7,965	162	–	8,654
Non-executive directors:					
Mr. Hu Yishi	200	5,200	12	–	5,412
Mr. Hu Jin Xing (v)	600	–	–	–	600
	800	5,200	12	–	6,012
Independent non-executive directors:					
Mr. Tam Sun Wing	200	–	–	–	200
Mr. Ko Ming Tung, Edward (vi)	84	–	–	–	84
Mr. Ng Ge Bun	200	–	–	–	200
Mr. He Yi (vii)	124	–	–	–	124
	608	–	–	–	608
Total	1,935	13,165	174	–	15,274

(i) Mr. Yip Kar Hang, Raymond resigned as an executive director on 6 January 2011.

(ii) Mr. Xue Jian was re-designated as an executive director on 6 January 2011.

(iii) Mr. Law Wing Chi, Stephen was appointed as an executive director on 18 May 2011.

(iv) Ms. Kwong Wai Man, Karina resigned as an executive director on 31 December 2011.

(v) Mr. Hu Jin Xing resigned as a non-executive director on 31 December 2011.

(vi) Mr. Ko Ming Tung, Edward resigned as an independent non-executive director on 31 May 2011.

(vii) Mr. He Yi was appointed as an independent non-executive director on 18 May 2011.

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

2010	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Retirement scheme contributions *HK$'000*	Equity-settled share option expense *HK$'000*	Total *HK$'000*
Executive directors:					
Mr. Yip Kar Hang, Raymond	200	7,742	120	5,218	13,280
Ms. Kwong Wai Man, Karina	200	1,944	65	1,044	3,253
	400	9,686	185	6,262	16,533
Non-executive directors:					
Mr. Hu Jin Xing	600	–	–	10,162	10,762
Mr. Hu Yishi	200	13,600	12	9,354	23,166
Mr. Xue Jian	200	–	–	2,173	2,373
	1,000	13,600	12	21,689	36,301
Independent non-executive directors:					
Mr. Tam Sun Wing	200	–	–	104	304
Mr. Ko Ming Tung, Edward	200	–	–	104	304
Mr. Ng Ge Bun	200	–	–	104	304
	600	–	–	312	912
Total	2,000	23,286	197	28,263	53,746

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five highest paid employees during the year included five (2010: four) directors of the Company whose remuneration is included above. The remuneration of the remaining individual for year 2010 is as follows:

	2011 ***HK$'000***	2010 *HK$'000*
Salaries and other benefits	**–**	1,371
Retirement benefit scheme contributions	**–**	54
Total	**–**	1,425

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director and highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	1
Total	**–**	1

11. INCOME TAX (CREDIT)/EXPENSE

The major components of income tax (credit)/expense for the year ended 31 December 2011 and 2010 are as follows:

	2011	2010
	HK$'000	*HK$'000*
Current income tax		
Hong Kong	**162**	–
Mainland China	**–**	–
Deferred income tax *(note 36)*	**(22,270)**	2,213
Income tax (credit)/expense for the year	**(22,108)**	2,213

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) of the estimated assessable profits arising in Hong Kong during the year.

The provision for Mainland China current income tax is based on the statutory rate of 25% (2010: 25%) of the assessable profits of the Group's subsidiaries in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC Corporate Income Tax Law, which came into effect on 1 January 2008. No provision for Mainland China current income tax has been made in the financial statements, as the Group does not have any assessable profit arising in Mainland China.

11. INCOME TAX (CREDIT)/EXPENSE (continued)

A reconciliation of the tax (credit)/expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax (credit)/expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates for the years ended 31 December 2011 and 2010, are as follows:

2011	**Mainland China**		**Hong Kong**		**Others (i)**		**Total**	
	HK$'000	***%***	***HK$'000***	***%***	***HK$'000***	***%***	***HK$'000***	***%***
Loss before tax from continuing operations	**(25,149)**		**(355,924)**		**(17,928)**		**(399,001)**	
Tax at the statutory income tax rate	**(6,287)**	**25.0**	**(58,727)**	**16.5**	**–**	**–**	**(65,014)**	**16.3**
Expenses not deductible for tax	**87**	**(0.3)**	**5,048**	**(1.4)**	**–**	**–**	**5,135**	**(1.3)**
Share of profits and losses of a joint-controlled entity and associates	**–**	**–**	**54,179**	**(15.2)**	**–**	**–**	**54,179**	**(13.6)**
Income not subject to tax	**(239)**	**1.0**	**–**	**–**	**–**	**–**	**(239)**	**0.1**
Tax losses utilized from prior years	**–**	**–**	**(338)**	**0.1**	**–**	**–**	**(338)**	**0.1**
Tax losses not recognised	**668**	**(2.8)**	**–**	**–**	**–**	**–**	**668**	**(0.2)**
Effect of withholding tax at 5% on the distributable profits of the Group's PRC associates	**–**	**–**	**(16,499)**	**4.6**	**–**	**–**	**(16,499)**	**4.1**
Tax credit at the Group's effective rate	**(5,771)**	**22.9**	**(16,337)**	**4.6**	**–**	**–**	**(22,108)**	**5.5**

2010	Mainland China		Hong Kong		Others (i)		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax from continuing operations	(192,091)		272,948		(108,715)		(27,858)	
Tax at the statutory income tax rate	(48,023)	25.0	45,036	16.5	–	–	(2,987)	10.7
Expenses not deductible for tax	–	–	3,496	1.3	–	–	3,496	(12.5)
Deductible temporary differences not recognised	34,657	(18.0)	–	–	–	–	34,657	(124.4)
Share of profits and losses of a joint-controlled entity and associates	–	–	(48,532)	(17.8)	–	–	(48,532)	174.2
Tax losses not recognised	901	(0.5)	–	–	–	–	901	(3.2)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC associates	–	–	14,678	5.4	–	–	14,678	(52.7)
Tax (credit)/charge at the Group's effective rate	(12,465)	6.5	14,678	5.4	–	–	2,213	(7.9)

(i) Others represent the results of the Company and certain subsidiaries which are tax exempted companies incorporated in Bermuda and the British Virgin Islands.

12. DISCONTINUED OPERATIONS

On 17 January 2011, the Company announced the decision of its board of directors to dispose of Kai Yuan Securities Limited ("Kai Yuan Securities") to Sheng Yuan Financial Services Group Limited ("SYFSGL"). SYFSGL is a wholly-owned subsidiary of Sheng Yuan Holdings Limited ("SYHL"), a company listed on the Stock Exchange, in which a director of the Company holds a 62.39% equity interest. Kai Yuan Securities was incorporated on 7 July 2010 and engaged in securities brokerage and financial services. Kai Yuan Securities had no substantial operations since its incorporation. The disposal of Kai Yuan Securities has been completed on 28 April 2011 at a consideration of HK$17,700,000, all of which had been collected as at 31 December 2011. Gain on the disposal amounted to HK$2,322,040.

On 14 March 2011, the Company entered into an agreement to dispose of External Fame Limited ("External Fame") to a third party. External Fame's sole business is holding of Beijing Boya Property Management Company Limited and Omnigold Resources Limited, both of which are engaged in property investment in Beijing, the PRC. The disposal of External Fame has been completed on 8 May 2011.

Kai Yuan Securities and External Fame were disposed in 2011. Since each of them represents a separate major line of business of the Group, the results of them are presented as discontinued operations, and the comparative figures have also been reclassified.

The results of Kai Yuan Securities and External Fame for 2011 and 2010 are presented below:

	2011 ***HK$'000***	2010 *HK$'000*
Revenue	**1,682**	4,109
Other income and gains	**–**	28
Other expenses	**–**	(1,259)
Change in fair value of investment properties	**(12,649)**	10,171
Administrative expenses	**(3,169)**	(3,271)
Finance costs	**(698)**	(1,264)
(Loss)/profit of the discontinued operations	**(14,834)**	8,514
Loss on disposal of subsidiaries *(note 42)*	**(9,795)**	–
(Loss)/profit before tax from the discontinued operations	**(24,629)**	8,514
Income tax credit/(expense):		
Related to pre-tax (loss)/profit	**1,040**	(1,472)
(Loss)/profit from the discontinued operations	**(23,589)**	7,042

12. DISCONTINUED OPERATIONS (continued)

The net cash flows incurred by Kai Yuan Securities and External Fame for 2011 and 2010 are as followings:

	2011 ***HK$'000***	2010 *HK$'000*
Operating activities	**(1,430)**	(6,061)
Investing activities	**7**	(6,773)
Financing activities	**(10,321)**	33,766
Net cash (outflow)/inflow	**(11,744)**	20,932

	2011	2010
(Loss)/earnings per share:		
Basic, from the discontinued operations	**HK$(0.2 cent)**	HK$0.1 cent
Diluted, from the discontinued operations	**HK$(0.2 cent)**	HK$0.1 cent

The calculations of basic and diluted (loss)/earnings per share from the discontinued operations are based on:

	2011	2010
(Loss)/earning (HK$'000)		
(Loss)/profit attributable to ordinary equity holders of the Company from the discontinued operations	**(23,589)**	7,042
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation *(note 15)*	**10,268,020**	9,460,402
Weighted average number of ordinary shares in issue during the year used in the diluted (loss)/earnings per share calculation *(note 15)*	**10,268,020**	9,482,655

13. DIVIDENDS

The directors of the Company did not recommend the payment of any dividend in respect of the year (2010: Nil).

14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2011 includes a loss of HK$19,734,000 (2010: HK$97,441,000) which has been dealt with in the financial statements of the Company (note 39).

15. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 10,268,020,000 (2010: 9,460,402,000) in issue during the year.

The calculation of the diluted (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to ordinary equity holders of the Company adjusted to reflect the interest on the convertible bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion duplicated as below of all dilutive potential ordinary shares into ordinary shares.

The calculation of basic and diluted (loss)/earnings per share amounts is based on:

	2011	2010
(Loss)/earnings (HK$'000)		
(Loss)/profit attributable to ordinary equity holders of the Company		
From continuing operations	(365,356)	94,206
From discontinued operations	(23,589)	7,042
	(388,945)	101,248
Interest on convertible bonds *(note 8)*	12,062	24,070
(Loss)/profit attributable to ordinary equity holders of the Company before interest on convertible bonds	(376,883)*	125,318*
Attributable to:		
Continuing operations	(353,294)*	118,276*
Discontinued operations	(23,589)	7,042
	(376,883)*	125,318*
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	10,268,020	9,460,402
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	22,253
Convertible bonds	621,279*	1,300,000*
Weighted average number of ordinary shares in issue during the year used in the diluted (loss)/earnings per share calculation	10,889,299*	10,782,655*

* The effect of convertible bonds is ignored in the calculation of diluted loss per share, and the diluted loss per share is the same as the basic loss per share for the year ended 31 December 2011 since the deemed conversion of convertible bonds would result in decrease in loss per share with an anti-dilutive effect. Therefore, the diluted loss per share amounts for the year ended 31 December 2011 are based on the loss for the year and the loss attributable to continuing operations of HK$388,945,000 and HK$365,356,000, respectively, and the weighted average number of ordinary shares of 10,268,020,000 in issue during the year ended 31 December 2011.

The effect of convertible bonds is ignored in the calculation of diluted earnings per share for the year ended 31 December 2010 since the deemed conversion of convertible bonds would result in increase in earnings per share with an anti-dilutive effect. Therefore, the diluted earnings per share amounts for the year ended 31 December 2010 are based on the earnings for the year and the earnings attributable to continuing operations of HK$101,248,000 and HK$94,206,000, respectively, and the weighted average number of ordinary shares of 9,482,655,000 in issue during the year ended 31 December 2010.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Heat supply facilities HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
As at 1 January 2010	442,847	63,276	1,417	10,063	3,808	123,715	645,126
Additions	8,527	57,110	1,646	7,123	5,338	65,038	144,782
Transfers	188,163	–	–	–	–	(188,163)	–
Disposals	(2,236)	–	–	(1,078)	–	–	(3,314)
Exchange differences on translation	20,840	2,978	67	474	179	5,821	30,359
As at 31 December 2010	658,141	123,364	3,130	16,582	9,325	6,411	816,953
Assets included in disposed subsidiaries *(note 42)*	–	–	–	(978)	(4,136)	–	(5,114)
Additions	358	–	350	186	459	58,410	59,763
Transfers	64,821					(64,821)	–
Disposals	–	–	(2,521)	–	(653)	–	(3,174)
Exchange differences on translation	33,846	6,191	104	813	362	–	41,316
As at 31 December 2011	757,166	129,555	1,063	16,603	5,357	–	909,744
Accumulated depreciation							
As at 1 January 2010	(21,187)	(4,598)	(349)	(2,218)	(1,098)	–	(29,450)
Charge for the year	(25,446)	(5,105)	(684)	(2,026)	(652)	–	(33,913)
Disposals	57	–	–	420	–	–	477
Exchange differences on translation	(997)	(216)	(16)	(104)	(52)	–	(1,385)
As at 31 December 2010	(47,573)	(9,919)	(1,049)	(3,928)	(1,802)	–	(64,271)
Assets included in disposed subsidiaries *(note 42)*	–	–	–	401	173	–	574
Charge for the year	(40,596)	(4,912)	(581)	(2,353)	(1,445)	–	(49,887)
Disposals	–	135	981	–	102	–	1,218
Exchange differences on translation	(3,313)	(555)	(54)	(240)	(117)	–	(4,279)
As at 31 December 2011	(91,482)	(15,251)	(703)	(6,120)	(3,089)	–	(116,645)
Impairment loss							
As at 1 January 2010	(38,614)	–	–	–	–	–	(38,614)
Exchange differences on translation	(1,817)	–	–	–	–	–	(1,817)
As at 31 December 2010	(40,431)	–	–	–	–	–	(40,431)
Provided for the year	–	–	–	–	–	–	–
Exchange differences on translation	(1,960)	–	–	–	–	–	(1,960)
As at 31 December 2011	(42,391)	–	–	–	–	–	(42,391)
Net carrying amount							
As at 31 December 2011	**623,293**	**114,304**	**360**	**10,483**	**2,268**	**–**	**750,708**
As at 31 December 2010	570,137	113,445	2,081	12,654	7,523	6,411	712,251

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Office equipment HK$'000	Total HK$'000
Cost		
As at 1 January 2010	295	295
Additions	–	–
Disposals	–	–
As at 31 December 2010	295	295
Additions	20	20
Disposals	–	–
As at 31 December 2011	**315**	**315**
Accumulated depreciation		
As at 1 January 2010	(115)	(115)
Charge for the year	(30)	(30)
As at 31 December 2010	(145)	(145)
Charge for the year	(73)	(73)
As at 31 December 2011	**(218)**	**(218)**
Net carrying amount		
As at 31 December 2011	**97**	**97**
As at 31 December 2010	150	150

17. INVESTMENT PROPERTIES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Carrying amount at 1 January	**98,885**	91,473
Net (loss)/gain from adjustment in fair value recognised in income statement *(note 12)*	**(12,649)**	10,171
Disposal of assets during the year	**–**	(6,974)
Disposal of subsidiaries during the year *(note 42)*	**(86,236)**	–
Exchange differences on translation	**–**	4,215
Carrying amount at 31 December	**–**	98,885

As mentioned in note 12, on 14 March 2011, the Company entered into an agreement to dispose of External Fame to a third party, which was completed on 8 May 2011. External Fame's sole business is the holding of Beijing Boya Property Management Company Limited and Omnigold Resource Limited, both of which are engaged in property investment in Beijing, the PRC and hold all of the Group's investment properties. These investment properties were revalued on 30 April 2011, the most close applicable date to the date of disposal, by Jones Lang LaSalle Sallmanns Limited ("Sallmanns"), independent qualified professional valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same or similar location and condition, after adjustment to reflect certain changes which involves estimation on location, transportation convenience and etc..

18. PREPAID LAND LEASE PAYMENTS

The prepaid land lease payments of the Group represent leasehold interests in state-owned land in Mainland China with rights to use the land of HK$47,334,000 (2010: HK$48,274,000) under leases of 18 years.

	Group	
	2011	2010
	HK$'000	*HK$'000*
Carrying amount at 1 January	**48,274**	49,322
Recognised during the year	**(3,211)**	(3,292)
Exchange differences on translation	**2,271**	2,244
Carrying amount at 31 December	**47,334**	48,274
Current portion	**(3,197)**	(3,370)
Non-current portion	**44,137**	44,904

19. GOODWILL

	Group	
	2011	2010
	HK$'000	*HK$'000*
At beginning of year		
Cost	**49,105**	49,105
Accumulated impairment	**(49,105)**	(38,348)
Net carrying amount	**–**	10,757
Impairment during the year	**–**	(10,757)
	–	–
At end of year		
Cost	**49,105**	49,105
Accumulated impairment	**(49,105)**	(49,105)
Net carrying amount	**–**	–

As a result of the impairment tests in previous years, full impairment provision has been provided for the goodwill of the Group.

20. INTANGIBLE ASSETS

Group	Existing fee contract HK$'000	Existing construction contracts HK$'000	Operating rights HK$'000	Trading rights HK$'000	Total HK$'000
Cost					
As at 1 January 2010	263,754	5,519	118,192	–	387,465
Additions	–	–	–	500	500
Exchange differences on translation	12,412	260	5,562	–	18,234
As at 31 December 2010	276,166	5,779	123,754	500	406,199
Assets included in disposed subsidiaries *(note 42)*	–	–	–	(500)	(500)
Exchange differences on translation	13,387	280	5,999	–	19,666
As at 31 December 2011	**289,553**	**6,059**	**129,753**	**–**	**425,365**
Amortisation					
As at 1 January 2010	(21,980)	(4,140)	(9,854)	–	(35,974)
Provided for the year	–	(1,379)	(6,876)	–	(8,255)
Exchange differences on translation	(1,034)	(260)	(464)	–	(1,758)
As at 31 December 2010	(23,014)	(5,779)	(17,194)	–	(45,987)
Provided for the year	–	–	(7,072)	–	(7,072)
Exchange differences on translation	(1,115)	(280)	(970)	–	(2,365)
As at 31 December 2011	**(24,129)**	**(6,059)**	**(25,236)**	**–**	**(55,424)**
Impairment					
As at 1 January 2010	(241,774)	–	–	–	(241,774)
Exchange differences on translation	(11,378)	–	–	–	(11,378)
As at 31 December 2010	(253,152)	–	–	–	(253,152)
Exchange differences on translation	(12,272)	–	–	–	(12,272)
As at 31 December 2011	**(265,424)**	**–**	**–**	**–**	**(265,424)**
Net carrying amount					
As at 31 December 2011	**–**	**–**	**104,517**	**–**	**104,517**
As at 31 December 2010	–	–	106,560	500	107,060

21. INVESTMENTS IN SUBSIDIARIES

	Company 2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	**541,988**	541,988

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of approximately HK$752,349,000 (2010: HK$611,056,000) and HK$253,407,000 (2010: HK$197,815,000), respectively, are unsecured, interest-free and are repayable on demand.

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

Name of subsidiary	Legal form of business	Place of incorporation or registration/place of operations	Nominal value of issued and fully paid-up shares/ registered capital	Percentage of issued share/ registered capital attributable to the Company Direct %	Indirect %	Principal activities
Achieve (China) Limited	Corporation	Hong Kong	HK$1	–	100	Investment holding
Ample Land International Limited	Corporation	Hong Kong/Macau	HK$1	100	–	Investment holding
Burlingame (Chinese) Investment Limited	Corporation	Hong Kong/ Mainland China	HK$10,000	–	100	Investment holding
Charter Best Investments Limited	Corporation	British Virgin Islands	US$1	100	–	Investment holding
Eland Success Limited	Corporation	British Virgin Islands	US$1	100	–	Investment holding
Ever Profit Management Limited	Corporation	Hong Kong	HK$1,000,000	100	–	Service provision
Fame Risen Development Limited	Corporation	Hong Kong	HK$ 20,000,000	100	–	Steel manufacturing and trading
Goalreach Investments Limited	Corporation	British Virgin Islands	US$1	100	–	Investment holding
Shanghai Mianwang Investment Consulting Co., Ltd. (上海綿旺投資咨詢有限公司)	Wholly-owned foreign enterprise	The PRC/ Mainland China	US$3,000,000	–	100	Investment holding
Tianjin Heating Development Company Limited (天津市供熱發展有限公司)(i)	Sino-foreign owned enterprise	The PRC/ Mainland China	RMB 50,000,000	–	49	Heat energy supply in Tianjin, the PRC
Tianjin Baosheng Heating Investment Company Ltd. (天津市寶勝熱能投資有限公司)(ii)	Limited enterprise	The PRC/ Mainland China	RMB 20,000,000	–	26.95	Heat energy supply in Tianjin, the PRC
Tianjin Meijiang Heating Company Ltd. (天津市梅江供熱有限公司) (ii)	Limited enterprise	The PRC/ Mainland China	RMB 66,000,000	–	25.97	Heat energy supply in Tianjin, the PRC

21. INVESTMENTS IN SUBSIDIARIES (continued)

(i) Tianjin Heating Development Company Limited ("Tianjin Heating") is accounted for as a subsidiary of the Group because the Group has the power to control the board of directors and to govern the financial and operating policies of Tianjin Heating. Through an entrustment agreement dated 30 June 2008 entered into between Shanghai Mianwang Investment Consulting Co., Ltd., one wholly-owned subsidiary of the Group and a shareholder of Tianjin Heating who holds a 5% equity interest in Tianjin Heating, the Group has the right to exercise all the power as the shareholder of the 5% equity interest, and the Group is entitled to an extra right to appoint one director to the board of directors of Tianjin Heating. Together with the Group's original right to appoint directors to the board of directors of Tianjin Heating as the shareholder holding a 49% equity interest, the Group is entitled to appoint up to six directors out of nine directors to the board of directors of Tianjin Heating. Tianjin Heating applies the principle of simple majority to pass a board resolution.

(ii) Tianjin Baosheng Heating Investment Company Ltd. and Tianjin Meijiang Heating Company Ltd. are subsidiaries of Tianjin Heating, a non-wholly-owned subsidiary of the Group, and accordingly are accounted for as subsidiaries by virtue of the Group's control over them.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

22. INVESTMENTS IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2011	2010
	HK$'000	*HK$'000*
Share of net assets*	**94,379**	116,119

Particulars of the jointly-controlled entity are as follows:

Name of jointly-controlled entity	Legal form of business	Place of establishment and operations	Nominal value of registered capital	Percentage of voting power attributable to the Company		Principal activities
				Directly	Indirectly	
上海地下商城有限公司 (SUCCL)	Sino-foreign cooperative joint venture	The PRC/ Mainland China	USD9,000,000	–	50%	Operation and management of shopping malls in Mainland China

22. INVESTMENTS IN A JOINTLY-CONTROLLED ENTITY (continued)

The following table sets out the summarised financial information of the Group's investments in the jointly-controlled entity which is accounted for using the equity method:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**21,844**	14,203
Non-current assets	**124,356**	124,926
Current liabilities	**(51,821)**	(23,010)
Net assets	**94,379**	116,119
Share of the jointly-controlled entity's results:		
Revenue	**29,489**	27,615
Total expense	**(27,498)**	(26,998)
Tax charge	**(383)**	(5)
Profit after tax	**1,608**	612

* The jointly-controlled entity is a sino-foreign cooperative joint venture. In accordance with the relevant PRC law governing the sino-foreign cooperative joint ventures and the mutual agreement between the joint venture partners, the Group can withdraw the original investment from the joint venture without impact on the Group's percentage of voting power in the joint venture. In 2009, as agreed between the Group and the PRC joint venture partner, the Group has the right to withdraw RMB60,000,000 (approximately HK$67,400,000), starting from 2009 and subject to agreements between the Group and the PRC joint venture partner on annual amounts. As a result, an investment of approximately HK$10,485,000 (2010: HK$10,588,000) was agreed to be received from the jointly-controlled entity in 2011.

Recognized in dividend receivable from a jointly-controlled entity are dividends declared but not received of HK$79,978,000 (2010: HK$58,671,000).

23. INVESTMENTS IN ASSOCIATES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Share of net assets	**2,968,591**	3,150,183

23. INVESTMENTS IN ASSOCIATES (continued)

Particulars of all associates are as follows:

Name of associate	Legal form of business	Place of incorporation	Nominal value of registered capital	Percentage of ownership interest attributable to the Group Directly	Percentage of ownership interest attributable to the Group Indirectly	Principal activities
天津市梅江供熱運行管理有限公司 Tianjin Meijiang Heat Supply Operating Management Company Limited (i)	Limited enterprise	The PRC	RMB2,000,000	–	21%	Sale of heating materials
日照鋼鐵有限公司 Rizhao Steel Co., Limited (ii)	Limited enterprise	The PRC	RMB100,000,000	–	30%	Manufacturing and trading of steel products
日照型鋼有限公司 Rizhao Medium Section Mill Co., Limited (ii)	Limited enterprise	The PRC	RMB100,000,000	–	30%	Manufacturing and trading of steel products
日照鋼鐵軋鋼有限公司 Rizhao Steel Wire Co., Limited (ii)	Limited enterprise	The PRC	RMB80,000,000	–	25%	Manufacturing and trading of steel products

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements with adjustments made to bring their accounting policies in line with those of the Group:

	2011 **HK$'000**	2010 HK$'000
Revenue	**113,501,485**	95,061,322
(Loss)/profit	**(1,134,341)**	1,210,258
Total assets	**56,186,297**	61,021,689
Total liabilities	**45,350,674**	49,593,012

23. INVESTMENTS IN ASSOCIATES (continued)

(i) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(ii) Certain matters in relation to the three associates of the Group located in Rizhao, Shandong province are disclosed as follows:

On 6 September 2009, the Group's three associates together with their parent company, Rizhao Steel Holding Group Company Limited, and their two fellow subsidiaries (collectively as the "Rizhao Steel Group"), entered into an asset restructuring and co-operation agreement (the "Restructuring Agreement") with Shandong Iron and Steel Group Co., Ltd. (the "Shandong Steel Group"), a state-owned enterprise. Pursuant to the Restructuring Agreement, (a) the Rizhao Steel Group and the Shandong Steel Group shall jointly invest in a new joint venture enterprise (the "New JV") and hold 33% and 67% equity shares in the New JV, respectively. The New JV will construct and operate a steel manufacturing base in Rizhao, Shandong; (b) the Rizhao Steel Group shall transfer to the New JV its entire property, plant and equipment and land use rights (the "Injected Assets") and its relevant bank loans, as well as other liabilities (the "Assumed Liabilities"). The value of the Injected Assets and Assumed Liabilities shall be assessed by an independent valuation company and shall take effect upon mutual confirmation by both parties and submission to and confirmation by the State Owned Assets Supervision and Administration Commission of the Shandong Provincial Government. The net amount of the agreed value of the Injected Assets and Assumed Liabilities shall constitute the capital contribution by the Rizhao Steel Group. The Shandong Steel Group shall contribute cash to the New JV in the same proportion as its shareholding. The capital contributions to the New JV shall be completed within 180 days after the date of the Restructuring Agreement (the "Completion"). The Completion shall be conditional upon the execution of all legal documents relevant to the restructuring; and (c) During the period from the Completion to the commencement of the operation of the phase I project of the New JV (the "Transitional Period"), the Rizhao Steel Group can lease back the Injected Assets from the New JV and continue its operation with the Injected Assets at its own discretion. The rental fee payable by the Rizhao Steel Group to the New JV shall be determined by negotiation between both parties.

On 30 August 2010, the Rizhao Steel Group entered into an agreement with the Shandong Steel Group (the "Second Restructuring Agreement"). Pursuant to the Second Restructuring Agreement, (a) the Rizhao Steel Group and Shandong Steel Group agreed to proceed with the restructuring within the basic framework as described in the Restructuring Agreement; (b) The restructuring shall be completed via a one-time acquisition of assets held by the Rizhao Steel Group; (c) Procedures relevant to the acquisition, including due diligence, asset valuation and audit, are to commence immediately; and (d) the Rizhao Steel Group and Shandong Steel Group shall further negotiate and confirm the definitive scope and consideration of the aforementioned one-time acquisition of assets based upon the results of the procedures (including due diligence, asset valuation and audit) described above, and completion of the acquisition shall take place before 30 November 2010.

According to the announcement made by the Group on 1 December 2010, completion of such transaction was postponed to be no later than the end of February 2011. However, up till the date of this annual report, the negotiation of the above restructuring is still in progress and not completed yet.

24. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2011	2010
	HK$'000	*HK$'000*
Unlisted equity investments – at cost		
Balance at 1 January	**6,151**	5,875
Exchange differences on translation	**296**	276
Balance at 31 December	**6,447**	6,151
Impairment loss		
Balance at 1 January	**(680)**	(650)
Exchange differences on translation	**(31)**	(30)
Balance at 31 December	**(711)**	(680)
Carrying value		
At 1 January	**5,471**	5,225
At 31 December	**5,736**	5,471

As at 31 December 2011, the Group's available-for-sale investments included a 16% equity interest in 天津市津熱物流有限公司 (Tianjin Jinre Logistics Company Limited) and a 4% equity interest in 天津津濱供熱有限公司 (Tianjin Jinbin Heat Supply Company Limited). They are measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

25. INVENTORIES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Raw materials	**7,676**	3,288
Consumables	**729**	695
	8,405	3,983

26. TRADE RECEIVABLES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**70,884**	183

Trade receivables are non-interest-bearing.

For heat energy supply income and heat energy supply facilities connection income, the Group generally receives the relevant fees in advance.

The Group's trading terms with its customers for trading of iron and steel products are mainly on credit. The credit period is 100 days. The Group seeks to maintain strict control over its outstanding receivables and does not hold any collateral or other credit enhancement over its trade receivable balances.

An aged analysis of trade receivables, based on the invoice date, is stated as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within 1 month	**–**	–
1 to 3 months	**70,884**	–
Over 3 months	**–**	183
	70,884	183

No impairment allowance is necessary in respect of trade receivables because there has not been a significant change in credit quality and the balances are considered fully recoverable.

27. OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**1,992**	1,821	**–**	825
Deposits and other receivables	**15,224**	10,870	**913**	–
	17,216	12,691	**913**	825

Included in deposits and other receivables are deposits advanced to independent third parties for procurement of raw materials and services with a carrying amount of HK$7,891,000 (2010: HK$8,579,000). The amounts are unsecured, non-interest-bearing and repayable on demand. Management believes that no impairment allowance is necessary in respect of other receivables and prepayments as there has not been a significant change in credit quality and the balances are considered fully recoverable.

28. AMOUNTS DUE FROM A JOINTLY-CONTROLLED ENTITY AND AN ASSOCIATE AND AMOUNT DUE TO AN ASSOCIATE

The Group's amounts due from a jointly-controlled entity and an associate and amount due to an associate are not trade in nature and are unsecured, interest-free and repayable on demand.

Management believes that no impairment allowance is necessary in respect of the Group's amounts due from a jointly-controlled entity and an associate because there has not been a significant change in credit quality and the balances are considered fully recoverable.

29. AMOUNTS DUE FROM/TO RELATED COMPANIES

Amounts due from related companies

	Group	
	2011	2010
	HK$'000	*HK$'000*
Tianjin Jinbin Heat Supply Company Limited (ii), (iii)	**140,423**	140,423
Tianjin Jinre Co., Ltd. (i)	**112,189**	112,537
Tianjin Heating Supply Co., Ltd. (ii)	**11,197**	10,794
Tianjin Jinre Logistics Company Limited (ii)	**8,157**	8,109
Other related companies (ii)	**1,728**	1,646
	273,694	273,509
Less: Impairment provision *(note 7)*	**(140,423)**	(140,423)
	133,271	133,086

Amounts due to related companies

	Group	
	2011	2010
	HK$'000	*HK$'000*
Tianjin Jinre Construction and Development Co., Ltd. (ii)	**40,381**	38,828
Tianjin Jinre Logistics Company Limited (ii)	**195**	1,546
Tianjin Jinbin Heat Supply Company Limited (ii)	**16,356**	–
	56,932	40,374

29. AMOUNTS DUE FROM/TO RELATED COMPANIES (continued)

(i) Tianjin Jinre Co., Ltd. is a non-controlling shareholder of a subsidiary of the Group.

(ii) These related companies are under significant influence of a non-controlling shareholder of a subsidiary of the Group.

(iii) In 2010, the Group assessed the recoverability of HK$140,423,000 due from Tianjin Jinbin Heat Supply Company Limited and concluded that the chance of recovering the balance was low. Accordingly, full provision for impairment was made.

These amounts are not trade in nature and are unsecured, interest-free and repayable on demand.

Apart from the impairment provision on amounts due from related companies as detailed above, management believes that no further impairment allowance is necessary in respect of the remaining amounts due from related companies because there has not been a significant change in credit quality and the remaining balances are still considered full receivable.

30. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**459,831**	225,830	**303,147**	111,267
Less: Pledged deposits	**–**	(17,647)	**–**	–
Cash and cash equivalents	**459,831**	208,183	**303,147**	111,267

As at 31 December 2011, no bank balance was pledged (2010: HK$17,647,000 was pledged to banks for bills payable).

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$66,328,000 (2010: HK$73,978,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

31. TRADE AND BILLS PAYABLES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Trade payables	**28,927**	27,465
Bills payable	**–**	20,000
	28,927	47,465

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within 1 month	**1,203**	1,758
1 to 3 months	**1,173**	4,013
Over 3 months	**26,551**	41,694
	28,927	47,465

The trade payables have no significant balances with ageing over one year. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

32. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**97,346**	78,870	**–**	3,122
Accruals	**3,265**	4,776	**3,265**	–
	100,611	83,646	**3,265**	3,122

Other payables have no significant balances with ageing over one year.

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2011 Effective interest rate (%)	2011 Maturity	2011 *HK$'000*	2010 Effective interest rate (%)	2010 Maturity	2010 *HK$'000*
Current						
Bank loans – unsecured	**–**	**–**	**–**	5.84	2011	17,647
Bank loans – secured (ii)	**6.67%**	**2012**	**12,335**	5.65	2011	47,029
Current portion of other long term loan – unsecured (i)	**–**	**2012**	**6,746**	–	2011	6,793
			19,081			71,469
Non-current						
Other long term loan – unsecured (i)	**–**	**2013**	**2,603**	–	2013	8,533
			2,603			8,533
			21,684			80,002

	Group 2011 *HK$'000*	Group 2010 *HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year	**12,335**	64,676
Analysed into:		
Other borrowings repayable:		
Within one year or on demand	**6,746**	6,793
In the second year	**2,603**	5,689
In the third to fifth years, inclusive	**–**	2,844
	9,349	15,326
	21,684	80,002

(i) Other long term loan – unsecured is a loan from Tianjin Jinre Construction and Development Co., Ltd., a related company under significant influence of a non-controlling shareholder of a subsidiary of the Group. It transferred its Denmark government interest-free loan to Tianjin Meijiang Heat Supply Co., Ltd. ("Meijiang Heat"), a subsidiary of the Group. Meijiang Heat repaid the loan on schedule during the year.

(ii) The secured bank loans were secured by the pledge of the office buildings of a related company, Tianjin Jinre Co., Ltd.

34. LOAN FROM A RELATED COMPANY

The amount is a loan from Tianjin Jinre Construction and Development Co., Ltd., a non-controlling shareholder of a subsidiary of the Group, which is unsecured, bears interest at 8% per annum and is repayable on demand.

35. CONVERTIBLE BONDS

a. Convertible bonds issued on 2 July 2009

On 26 May 2008, the Company entered into a convertible bonds subscription agreement with Mr. Hu Yishi, chairman of the board of directors of the Company, to issue to the latter HK$265,500,000 of convertible bonds, which can be convertible at the option of the bondholder into 1,500,000,000 ordinary shares of the Company (i.e., the conversion price is HK$0.177 per share) within the period ending on the second anniversary of the date of issuance of the convertible bonds (the "Maturity Date"). The bonds carry interest at a rate of 3.5% per annum on the outstanding principal amount which is payable yearly. On 2 July 2009, the convertible bonds were issued to Mr. Hu Yishi.

The convertible bonds are considered compound financial instruments and the fair value of the liability component was estimated at the issuance date using a prevailing market interest rate for a similar bond without a conversion option. The residual amount (i.e., the fair value of the compound financial instruments as a whole less the fair value of the liability component) is assigned as an equity component and is included in shareholders' equity.

The convertible bonds issued on 2 July 2009 were split upon issuance into the liability and equity components, and the movements of the liability component are as follows:

	Group and Company	
	2011	2010
	HK$'000	*HK$'000*
Liability component at 1 January	**232,357**	206,630
Interest charge	**12,062**	24,070
Interest paid	**(3,818)**	(8,054)
Conversion of convertible bonds* *(note 41)*	**(240,601)**	–
Exchange differences on translation	**–**	9,711
Liability component at 31 December	**–**	232,357

* On 7 August 2009, Mr. Hu Yishi converted part of the convertible bonds with a principal amount of HK$35,400,000 for 200,000,000 shares.

On 22 June 2011, Mr. Hu Yishi converted all the then outstanding convertible bonds with a principal amount of HK$230,100,000 for 1,300,000,000 shares.

35. CONVERTIBLE BONDS (continued)

b. Convertible bonds issued on 30 December 2011

On 19 December 2011, the Company entered into a convertible bonds subscription agreement with Ga Leung Investment Company Limited, a third party, to issue to the latter HK$280,000,000 of convertible bonds, which can be convertible at the option of the bondholder into 1,866,666,666 ordinary shares of the Company (i.e., the conversion price is HK$0.15 per share) within the period ending on the second anniversary of the date of issuance of the convertible bonds (the "Maturity Date"). The bonds carry interest at a rate of 3.5% per annum on the outstanding principal amount and is payable yearly. On 30 December 2011, the convertible bonds were issued to Ga Leung Investment Company Limited.

The convertible bonds are considered a compound financial instrument and the fair value of its liability component was estimated at the issuance date using a prevailing market interest rate for a similar bond without a conversion option. The residual amount (i.e., the fair value of the compound financial instrument as a whole less the fair value of the liability component) is assigned as an equity component and is included in shareholders' equity.

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

	2011 *HK$'000*
Fair value of convertible bonds on the issuance date	280,000
Less: equity component	(38,915)
Liability component on the issuance date	241,085
Interest charge	–
Interest paid	–
Liability component at 31 December 2011	241,085

36. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Group – 2011

Deferred tax liabilities

	Revaluation of investment properties *HK$'000*	Fair value adjustments from acquisition of subsidiaries *HK$'000*	Deferred revenue *HK$'000*	Withholding tax *HK$'000*	Total *HK$'000*
As at 1 January 2011	2,564	39,034	113,114	48,549	203,261
Deferred tax credited to the consolidated income statement during the year *(note 11)*	–	(3,045)	(6,903)	(16,499)	(26,447)
Deferred tax credited to the loss from discontinued operations *(note 12)*	(1,040)	–	–	–	(1,040)
Disposal of subsidiaries *(note 42)*	(1,524)	–	–	–	(1,524)
Exchange differences on translation	–	2,094	5,728	2,091	9,913
Gross deferred tax liabilities at 31 December 2011	–	38,083	111,939	34,141	184,163

36. DEFERRED TAX (continued)

Group – 2011 (continued)

Deferred tax assets

	Fair value adjustments from acquisition of subsidiaries *HK$'000*	Impairment of items of property, plant and equipment *HK$'000*	Total *HK$'000*
As at 1 January 2011	26,747	9,575	36,322
Deferred tax charged to the consolidated income statement during the year *(note 11)*	(3,629)	(548)	(4,177)
Exchange differences on translation	1,638	453	2,091
Gross deferred tax assets at 31 December 2011	24,756	9,480	34,236

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position.

	HK$'000
Net deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2011	149,927

36. DEFERRED TAX (continued)

Group – 2010

Deferred tax liabilities

	Revaluation of investment properties *HK$'000*	Fair value adjustments from acquisition of subsidiaries *HK$'000*	Deferred revenue *HK$'000*	Withholding tax *HK$'000*	Total *HK$'000*
As at 1 January 2010	1,660	38,286	119,944	54,405	214,295
Deferred tax charged/(credited) to the consolidated income statement during the year *(note 11)*	808	(1,395)	(12,225)	14,678	1,866
Released upon receipt of dividends from the Group's associates in Mainland China	–	–	–	(22,532)	(22,532)
Exchange differences on translation	96	2,143	5,395	1,998	9,632
Gross deferred tax liabilities at 31 December 2010	2,564	39,034	113,114	48,549	203,261

Deferred tax assets

	Fair value adjustments from acquisition of subsidiaries *HK$'000*	Impairment of items of property, plant and equipment *HK$'000*	Total *HK$'000*
As at 1 January 2010	25,704	9,654	35,358
Deferred tax charged to the consolidated income statement during the year *(note 11)*	(635)	(521)	(1,156)
Exchange differences on translation	1,678	442	2,120
Gross deferred tax assets at 31 December 2010	26,747	9,575	36,322

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position.

	HK$'000
Net deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2010	166,939

36. DEFERRED TAX (continued)

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Tax losses arising in Hong Kong (i)	**–**	2,047
Tax losses arising in Mainland China (ii)	**32,734**	30,062
Impairment provision of amounts due from related companies	**140,423**	140,423
	173,157	172,532

(i) The Group has no tax losses arising in Hong Kong (2010: HK$2,047,000) that are available indefinitely for offsetting against future taxable profits of the entities in which the losses arose.

(ii) The Group has tax losses arising in Mainland China of HK$32,734,000 (2010: HK$30,062,000) that will expire in one to five years for offsetting against future taxable profit of the entities.

Deferred tax assets have not been recognised in respect of the above tax losses and deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. In this regard, for the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those associates established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

37. ISSUED CAPITAL

		Number of shares		Issued capital	
		2011	2010	**2011**	2010
		'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.10 each					
Authorised					
At beginning of year		**20,000,000**	20,000,000	**2,000,000**	2,000,000
Increase of authorised share capital		**–**	–	**–**	–
At end of year		**20,000,000**	20,000,000	**2,000,000**	2,000,000
Issued and fully paid					
At beginning of year		**9,568,493**	9,427,333	**956,849**	942,733
Conversion of convertible bonds	(i)	**1,300,000**	–	**130,000**	–
Exercised equity-settled share options	(ii)	**43,720**	141,160	**4,372**	14,116
At end of year		**10,912,213**	9,568,493	**1,091,221**	956,849

(i) On 22 June 2011, the Company issued 1,300,000,000 shares of HK$0.10 each in respect of the conversion of the convertible bonds with a principal amount of HK$230,100,000 held by Mr. Hu Yishi (note 35).

(ii) The subscription rights attaching to 43,720,000 share options were exercised at a subscription price of HK$0.205 (2010: 131,160,000 and 10,000,000 share options were exercised at subscription prices of HK$0.205 and HK$0.165 per share, respectively), resulting in the issue of 43,720,000 shares (2010: 141,160,000) of HK$0.10 each at a total cash consideration of approximately HK$8,962,600 (2010: HK$28,537,800). An amount of HK$3,637,000 (2010: HK$11,617,000) was transferred from the share option reserve to the share premium account upon the exercise of the share options (note 38).

38. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 17 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 17 April 2012. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares of the Company.

Pursuant to the Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options might be granted to a participant, when aggregated with the total number of shares issued and issuable under the Scheme, must not exceed 25% of the aggregate number of shares under the Scheme from time to time. The offer of a grant of options may be accepted within 28 days from the date of the offer with signed acceptance letter together with consideration of HK$1.00 received by the Company. The exercise period of the share options granted is determinable by the directors. The subscription price for the shares in respect of which options are granted is determinable by the directors of the Company, but in any case must be the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

38. SHARE OPTION SCHEME (continued)

At 31 December 2011, the number of shares of the Company in respect of which options had been granted and remained outstanding under the Scheme of the Company was 284,780,000 (2010: 540,760,000), representing 2.61% (2010: 5.65%) of the shares of the Company in issue at that date.

The following table discloses details of the share options of the Company held by directors and employees and movements in these holdings during the year.

Grantees	Date of grant	Outstanding at 1 January 2010 '000	Granted/ (exercised) during the year '000	Outstanding at 31 December 2010 '000	Granted/ (exercised) during the year '000	Forfeited during the year	Outstanding at 31 December 2011 '000	Exercisable period	Exercise price per share (subject to anti-dilutive adjustment) HK$	Closing price per share before the date on which the options were granted HK$
Directors of the Company	22 August 2007 *(note a)*	87,440	(43,720)	43,720	(43,720)	–	–	22 August 2010 – 21 August 2011	0.205	0.205
	22 April 2008 *(note b)*	10,000	(10,000)	–	–	–	–	22 April 2008 – 16 April 2012	0.165	0.165
	16 Jan 2009 *(note c)*	71,000	–	71,000	–	–	71,000	16 January 2009 – 16 April 2012	0.265	0.265
	29 Jan 2010 *(note d)*	–	163,000	163,000	–	(111,000)	52,000	29 January 2010 – 16 April 2012	0.35	0.34
	19 Apr 2010 *(note e)*	–	111,780	111,780	–	(44,260)	67,520	19 April 2010 – 16 April 2012	0.33	0.33
		168,440	221,060	389,500	(43,720)	(155,260)	190,520			
Other employees	22 August 2007 *(note a)*	87,440	(87,440)	–	–	–	–	22 August 2010 – 21 August 2011	0.205	0.205
	29 Jan 2010 *(note d)*	–	57,000	57,000	–	(57,000)	–	29 January 2010 – 16 April 2012	0.35	0.34
	19 Apr 2010 *(note e)*	–	94,260	94,260	–	–	94,260	19 April 2010 – 16 April 2012	0.33	0.33
		87,440	63,820	151,260	–	(57,000)	94,260			
		255,880	284,880	540,760	(43,720)	(212,260)	284,780			
Exercisable at the end of the year		81,000		540,760			284,780			
Weighted average exercise price per share (HK$)		0.235	0.202	0.319	0.205		0.317			

(a) The interests are by virtue of 87,440,000 share options accepted by the directors of the Company and 87,440,000 accepted by the employees of the Group, which entitle the relevant directors and employees to subscribe for shares in the Company at an exercise price of HK$0.205 per share. The share options are vested and exercisable in whole or in part on 22 August 2010 and expire on 21 August 2011. The estimated fair values of the options granted amounted to HK$14,549,000 of which the entire amount was charged to the consolidated income statement before the year ended 31 December 2010.

(b) The interests are by virtue of 66,000,000 share options accepted by a director of the Company, which entitle the relevant director to subscribe for shares in the Company at an exercise price of HK$0.165 per share. The share options are vested and exercisable in whole or in part on 22 April 2008 and expire on 16 April 2012. The estimated fair values of the options granted amounted to HK$5,363,000, of which the entire amount was charged to the consolidated income statement during the year ended 30 June 2008. In 2009, 56,000,000 share options were exercised by the director.

38. SHARE OPTION SCHEME (continued)

(c) The interests are by virtue of 71,000,000 share options accepted by a non-executive director of the Company, which entitle the relevant director to subscribe for shares in the Company at an exercise price of HK$0.265 per share. The share options are vested and exercisable in whole or in part on 16 January 2009 and expire on 16 April 2012. The estimated fair values of the options granted are HK$5,204,000, of which the entire amount was charged to the consolidated income statement during the year ended 31 December 2009. A non-executive director holding 71,000,000 shares options was re-designated as an executive director of the Company during the year ended 31 December 2011.

(d) The interests are by virtue of 163,000,000 share options accepted by the directors of the Company and 57,000,000 accepted by the employees of the Group, which entitle the relevant directors and employees to subscribe for shares in the Company at an exercise price of HK$0.35 per share. The share options are vested and exercisable in whole or in part on 29 January 2010 and expire on 16 April 2012. The estimated fair values of the options granted amounted to HK$22,961,053 of which the entire amount was charged to the consolidated income statement during the year ended 31 December, 2010. 168,000,000 share options were forfeited for four directors and two employees of the Company who resigned during the year ended 31 December 2011.

(e) The interests are by virtue of 111,780,000 share options accepted by the directors of the Company and 94,260,000 accepted by the employees of the Group, which entitle the relevant directors and employees to subscribe for shares in the Company at an exercise price of HK$0.33 per share. The share options are vested and exercisable in whole or in part on 19 April 2010 and expire on 16 April 2012. The estimated fair values of the options granted amounted to HK$19,250,281 of which the entire amount was charged to the consolidated income statement during the year ended 31 December 2010. 44,260,000 share options were forfeited for one director of the Company who resigned during the year ended 31 December 2011.

The Group did not recognise share-based payment expenses for the year because there were no new share options granted during the year and all expenses related to share options granted previously had been recognised by the end of 2010 (2010: HK$45,444,000).

At the date of approval of these financial statements, the Company had 284,780,000 share options outstanding under the Scheme, which represented approximately 2.61% of the Company's shares in issue as at that date.

39. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 29 of the financial statements.

Company

	Note	Share premium HK$'000	Share option Reserve* HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010		640,784	17,226	15,711	(861,705)	(187,984)
Total comprehensive loss for the year		–	–	(8,370)	(97,441)	(105,811)
Equity-settled share option arrangements	38	–	45,444	–	–	45,444
Exercised equity-settled share options	38	26,039	(11,617)	–	–	14,422
At 31 December 2010		666,823	51,053	7,341	(959,146)	(233,929)
Total comprehensive loss for the year		–	–	–	(19,734)	(19,734)
Conversion of convertible bonds	35	219,673	–	–	–	219,673
Transfer of share option reserve upon the forfeiture of share options	38	–	(21,669)	–	21,669	–
Exercised equity-settled share options	38	8,228	(3,637)	–	–	4,591
At 31 December 2011		**894,724**	**25,747**	**7,341**	**(957,211)**	**(29,399)**

* The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits/accumulated losses should the related options expire or be forfeited.

40. PENSION SCHEME AND OTHER RETIREMENT BENEFITS

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20% of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The total pension cost charged to the consolidated income statement is approximately HK$784,000 (2010: HK$746,000).

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction for investing and financing activities

	2011 HK$'000	2010 HK$'000
Conversion of convertible bonds *(note 35)*	**240,601**	–

42. DISPOSAL OF SUBSIDIARIES

As detailed in note 12, the Group disposed of a subsidiary to a related party and another subsidiary to a third party during the year.

	2011 HK$'000
Net assets disposed of:	
Property, plant and equipment	**4,540**
Investment properties	**86,236**
Intangible assets	**500**
Other long-term assets	**205**
Trade and other receivables	**1,932**
Cash and cash equivalents	**10,797**
Trade and other payables	**(3,191)**
Deferred tax liabilities	**(1,524)**
	99,495
Loss on disposal of subsidiaries *(note 12)*	**(9,795)**
	89,700
Satisfied by:	
Cash	**89,700**

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

	2011 HK$'000
Cash consideration	**89,700**
Cash and cash equivalents disposed of	**(10,797)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**78,903**

43. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its investment properties (note 17) under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. All the investment properties were disposed during the year ended 31 December 2011. Therefore, at 31 December 2011, the Group had no future lease receivables under non-cancellable operating leases with its tenants.

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within one year	**–**	2,263
In the second to fifth years, inclusive	**–**	1,740
	–	4,003

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2011, the Group had total future minimum commitments under non-cancellable operating leases, which fall due as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within one year	**1,134**	4,276
In the second to fifth years, inclusive	**378**	6,507
	1,512	10,783

44. CAPITAL COMMITMENTS

At 31 December 2011, the Group had the following capital commitments:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Property, plant and equipment	**54,578**	75,530

At the end of the reporting period, the Company had no capital commitments.

45. CONTINGENT LIABILITIES

The Group provided a guarantee, with no charge, to a bank for a loan with the amount of HK$61,675,000 granted to Tianjin Jinre Logistics Company Limited, in which the Group holds a 16% equity interest. No contingent liabilities were provided for in the financial statements as the directors believe it is not probable that an outflow will be required to settle the obligation.

At the end of the reporting period, the Company had no contingent liabilities.

46. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related party transactions:

The Group entered into the following transactions with related parties:

	Note	**2011 HK$'000**	2010 HK$'000
Purchase of coal from Tianjin Jinre Logistics Company Limited ("Tianjin Jinre")(1)		**48,587**	37,475
Purchase of raw materials from Tianjin Jinbin Heat Supply Company Limited ("Tianjin Jinbin")(1)		**34,407**	41,993
Heat energy supply service conducted by Tianjin Jinbin on behalf of the Group(2)			
– Revenue		**22,919**	–
– Cost of sales		**20,587**	–
Interest expense to a non-controlling shareholder of a subsidiary of the Group(4)	8	**4,266**	3,684
Management fee to a non-controlling shareholder of a subsidiary of the Group(3)		**8,141**	6,207

(1) The purchases from Tianjin Jinre and Tianjin Jinbin were made according to the published prices and conditions offered by them to their major customers.

(2) According to an agreement entered into between Tianjin Jinbin and Meijiang Heating on 1 September 2011, Tianjin Jinbin would conduct part of the heat supply service on behalf of Meijiang Heating, being responsible to collect related service income and pay the cost and operating expenses on behalf of Meijiang Heating, and Meijiang Heating would settle such revenue, cost and expenses by the end of the next May when the heat energy supply period ends. According to the requirements of HKAS 18, Meijiang Heating is acting as a principal in such an arrangement and recognises the revenue, cost and expenses incurred in the year ended 31 December 2011 in these financial statements.

(3) The management fee was based on certain percentage of heat energy supply income which was in accordance with a management fee agreement.

(4) The interest expense is derived from a loan from Tianjin Jinre Construction and Development Co., Ltd., a non-controlling shareholder of a subsidiary of the Group, at 8% per annum as disclosed in note 34 to the financial statements.

(b) Compensation of key management personnel of the Group

The remuneration of key management during the year was as follows:

	2011 HK$'000	2010 HK$'000
Short term employee benefits	**13,339**	11,481
Post-employment benefits	**728**	251
Performance-related bonuses	**–**	13,450
Equity-settled share option expense	**–**	28,263
Total compensation paid to key management personnel	**14,067**	53,445

Further details of directors' remuneration are included in note 10 to the financial statements.

46. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Outstanding balances with related parties

Details of the balances with a jointly-controlled entity, associates and related companies as at the end of the reporting period are set out in notes 22, 28, 29 and 33 to the financial statements.

Details of the balance of a loan from a related company as at the end of the reporting period are set out in note 34 to the financial statements.

Having due regard to the substance of the relationships, the directors are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

47. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

2011 **Group**

Financial assets

	Held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	–	5,736	5,736
Trade receivables	–	70,884	–	70,884
Financial assets included in prepayments, deposits and other receivables	–	15,224	–	15,224
Amount due from a jointly-controlled entity	–	10,485	–	10,485
Amounts due from related companies	–	133,271	–	133,271
Dividend receivable from a jointly-controlled entity	–	79,978	–	79,978
Cash and cash equivalents	–	459,831	–	459,831
	–	769,673	5,736	775,409

Financial liabilities

	Held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade and bills payables	–	28,927	28,927
Financial liabilities included in other payables and accruals	–	97,346	97,346
Amounts due to related companies	–	56,932	56,932
Amount due to an associate	–	51,208	51,208
Interest-bearing bank and other borrowings	–	21,684	21,684
Loan from a related company	–	113,676	113,676
Convertible bonds	–	241,085	241,085
	–	610,858	610,858

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2010

Group

Financial assets

	Held for trading *HK$'000*	Loans and receivables *HK$'000*	Available-for-sale financial assets *HK$'000*	Total *HK$'000*
Available-for-sale investments	–	–	5,471	5,471
Trade receivables	–	183	–	183
Financial assets included in prepayments, deposits and other receivables	–	10,870	–	10,870
Amount due from an associate	–	2,000	–	2,000
Amounts due from related companies	–	133,086	–	133,086
Dividend receivable from a jointly-controlled entity	–	58,671	–	58,671
Financial assets at fair value through profit or loss	24	–	–	24
Pledged bank deposits	–	17,647	–	17,647
Cash and cash equivalents	–	208,183	–	208,183
	24	430,640	5,471	436,135

Financial liabilities

	Held for trading *HK$'000*	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Trade and bills payables	–	47,465	47,465
Financial liabilities included in other payables and accruals	–	78,870	78,870
Amounts due to related companies	–	40,374	40,374
Obligations under finance leases	–	181	181
Interest-bearing bank and other borrowings	–	80,002	80,002
Loan from a related company	–	104,273	104,273
Convertible bonds	–	232,357	232,357
	–	583,522	583,522

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2011 **Company**

Financial assets

	Loans and receivables HK$'000
Financial assets included in prepayments, deposits and other receivables	913
Amounts due from subsidiaries	752,349
Cash and cash equivalents	303,147
	1,056,409

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables and accruals	–
Amounts due to subsidiaries	253,407
Convertible bonds	241,085
	494,492

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2010

Financial assets

	Company
	Loans and receivables
	HK$'000
Financial assets included in prepayments, deposits and other receivables	–
Amounts due from subsidiaries	611,056
Cash and cash equivalents	111,267
	722,323

Financial liabilities

	Company
	Financial liabilities at amortised cost
	HK$'000
Financial liabilities included in other payables and accruals	3,122
Amounts due to subsidiaries	197,815
Convertible bonds	232,357
	433,294

48. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments as at the end of the reporting period are as follows:

Group

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Available-for-sale investments	**5,736**	5,471	**5,736**	5,471
Trade receivables	**70,884**	183	**70,884**	183
Financial assets included in prepayments, deposits and other receivables	**15,224**	10,870	**15,224**	10,870
Amount due from an associate	**–**	2,000	**–**	2,000
Amount due from a jointly-controlled entity	**10,485**	–	**10,485**	–
Amounts due from related companies	**133,271**	133,086	**133,271**	133,086
Dividend receivable from a jointly-controlled entity	**79,978**	58,671	**79,978**	58,671
Financial assets at fair value through profit or loss	**–**	24	**–**	24
Pledged bank deposits	**–**	17,647	**–**	17,647
Cash and cash equivalents	**459,831**	208,183	**459,831**	208,183
	775,409	436,135	**775,409**	436,135
Financial liabilities				
Trade and bills payables	**28,927**	47,465	**28,927**	47,465
Financial liabilities included in other payables and accruals	**97,346**	78,870	**97,346**	78,870
Amounts due to related companies	**56,932**	40,374	**56,932**	40,374
Amount due to an associate	**51,208**	–	**51,208**	–
Obligations under finance leases	**–**	181	**–**	181
Interest-bearing bank and other borrowings	**21,684**	80,002	**21,684**	80,002
Loan from a related company	**113,676**	104,273	**113,676**	104,273
Convertible bonds	**241,085**	232,357	**241,085**	232,357
	610,858	583,522	**610,858**	583,522

48. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Company

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Financial assets included in prepayments, deposits and other receivables	**913**	–	**913**	–
Amounts due from subsidiaries	**752,349**	611,056	**752,349**	611,056
Cash and cash equivalents	**303,147**	111,267	**303,147**	111,267
	1,056,409	722,323	**1,056,409**	722,323
Financial liabilities				
Financial liabilities included in other payables and accruals	**–**	3,122	**–**	3,122
Amounts due to subsidiaries	**253,407**	197,815	**253,407**	197,815
Convertible bonds	**241,085**	232,357	**241,085**	232,357
	494,492	433,294	**494,492**	433,294

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, pledged bank deposits, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, amounts due from/to related companies, amount due/dividend receivable from a jointly-controlled entity, amounts due from/to an associate and loan from a related company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of obligations under finance leases and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the liability portion of the convertible bonds is estimated using a prevailing market interest rate for a similar bond without a conversion option.

48. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

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

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

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

The Group did not have any financial assets measured at fair value as at 31 December 2011.

Assets measured at fair value as at 31 December 2010:

Group

As at 31 December 2010

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Financial assets at fair value through profit or loss	24	–	–	24

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings, convertible bonds and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, other receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. Management reviews and agrees policies for managing each of these risks, which are summarised below. The Group's accounting policies in relation to financial instruments are set out in note 2.4 to the financial statements.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. At the end of the reporting period, the Group had certain concentration of credit risk as 99% of the Group's trade receivables were due from the Group's largest customer within the steel manufacturing and trading segment (2010: 80% of the Group's trade receivables were due from the Group's five largest customers within the property investment segment).

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 26 to the financial statements.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from an associate and a jointly-controlled entity, amounts due from related companies and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The Group's treasury department closely monitors the Group's cash flow positions on a regular basis to ensure the cash flows of the Group are positive. The Group aims to maintain flexibility in funding by keeping committed credit lines available, obtaining debentures from specific entities and borrowing loans from banks.

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period based on the contractual undiscounted payments.

Group

	31 December 2011					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Longer than 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bills payables	–	2,376	26,551	–	–	28,927
Financial liabilities included in other payables and accruals	–	–	97,346	–	–	97,346
Amounts due to related companies	56,932	–	–	–	–	56,932
Amount due to an associate	51,208	–	–	–	–	51,208
Interest-bearing bank and other borrowings	–	14,242	6,746	2,603	–	23,591
Loan from a related company	113,676	–	–	–	–	113,676
Convertible bonds	–	–	9,800	289,800	–	299,600
	221,816	16,618	140,443	292,403	–	671,280

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group

	31 December 2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Longer than 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bills payables	–	5,771	41,694	–	–	47,465
Financial liabilities included in other payables and accruals	–	–	78,870	–	–	78,870
Amounts due to related companies	40,374	–	–	–	–	40,374
Obligations under finance leases	–	11	26	150	–	187
Interest-bearing bank and other borrowings	–	12,453	59,795	8,664	–	80,912
Loan from a related company	104,273	–	–	–	–	104,273
Convertible bonds	–	–	234,127	–	–	234,127
	144,647	18,235	414,512	8,814	–	586,208

Company

	31 December 2011					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Longer than 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Amounts due to subsidiaries	**253,407**	**–**	**–**	**–**	**–**	**253,407**
Convertible bonds	**–**	**–**	**9,800**	**289,800**	**–**	**299,600**
	253,407	**–**	**9,800**	**289,800**	**–**	**553,007**

	31 December 2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Longer than 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due to subsidiaries	197,815	–	–	–	–	197,815
Financial liabilities included in other payables and accruals	3,122	–	–	–	–	3,122
Convertible bonds	–	–	234,127	–	–	234,127
	200,937	–	234,127	–	–	435,064

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Since the Group's borrowings are all at fixed interest rates, a reasonably possible change of 100 basis points in the market interest rate with all other variables held constant has no impact on the Group's loss before tax and equity other than retained earnings. The interest rate and terms of repayment of borrowings are disclosed in note 33, 34 and 35 to the financial statements.

Foreign currency risk

The Group has foreign currency risk as its long term borrowings are denominated in United States dollars ("US dollar") and some monetary assets and liabilities are denominated in Hong Kong dollars.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US dollar and Hong Kong dollar exchange rates, with all other variables held constant, of the Group's loss before tax (due to changes in the fair values of monetary assets and liabilities).

	Increase/ (decrease) in foreign exchange rate %	**Increase/ (decrease) in loss before tax** *HK$'000*
2011		
If US dollar weakens against RMB	**5%**	**(2,846)**
If US dollar strengthens against RMB	**(5%)**	**2,846**
If Hong Kong dollar weakens against RMB	**5%**	**(19,509)**
If Hong Kong dollar strengthens against RMB	**(5%)**	**19,509**

	Increase/ (decrease) in foreign exchange rate %	Increase/ (decrease) in profit before tax *HK$'000*
2010		
If US dollar weakens against RMB	5%	762
If US dollar strengthens against RMB	(5%)	(762)
If Hong Kong dollar weakens against RMB	5%	(3,300)
If Hong Kong dollar strengthens against RMB	(5%)	3,300

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

The Group monitors capital using a gearing ratio, which is total borrowings divided by total assets. The Group's policy is to maintain the gearing ratio under 20%. Total borrowings include interest-bearing bank and other borrowings and loan from a related company. The gearing ratios as at the end of the reporting periods were as follows:

Group	*Notes*	**2011** ***HK$'000***	2010 *HK$'000*
Total borrowings			
Interest bearing bank and other borrowings	*33*	**21,684**	80,002
Loan from a related company	*34*	**113,676**	104,273
		135,360	184,275
Total assets		**4,751,335**	4,674,916
Gearing ratio		**2.8%**	3.9%

50. EVENTS AFTER THE REPORTING PERIOD

To the date of approval of the financial statements, no material subsequent event requiring disclosure occurred.

51. COMPARATIVE FIGURES

Certain comparative figures have been reclassified as a result of presentation for discontinued operations as detailed in note 12.

52. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2012.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below.

RESULT

	Year ended 31 December 2011 *HK$'000*	Year ended 31 December 2010 *HK$'000*	Year ended 31 December 2009 *HK$'000*	Six months' period ended 31 December 2008 *HK$'000*	Year ended 30-Jun 2008 *HK$'000*
Revenue	**332,676**	124,160	200,793	83,300	4,157
(LOSS)/PROFIT BEFORE TAX	**(423,630)**	(19,344)	1,719,832	17,823	(79,332)
Income tax credit/(expense)	**23,148**	(3,685)	24,411	(11,769)	(14)
(LOSS)/PROFIT FOR THE YEAR	**(400,482)**	(23,029)	1,744,243	6,054	(79,346)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

TOTAL ASSETS	**4,751,335**	4,674,916	4,846,774	2,067,843	1,899,340
TOTAL LIABILITIES	**(897,629)**	(883,639)	(1,239,775)	(937,419)	(721,794)
NON-CONTROLLING INTERESTS	**(275,431)**	(286,968)	(411,245)	(524,760)	(558,506)
	3,578,275	3,504,309	3,195,754	605,664	619,040