寶源控股有限公司

Bao Yuan Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 692)

Annual Report 2011

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive directors:

Mr. Wong Man Pan
Mr. Yim Hin Keung
Mr. Tsang King Sun *(appointed on 18 July 2011)*
Mr. Fu Zhenjun *(appointed on 23 March 2012)*
Mr. Chan Yiu Fai *(resigned on 31 May 2011)*
Mr. Yiu Kwok Ming, Tommy
(re-designated as non-executive director on 3 January 2012)

Non-executive director:

Mr. Yiu Kwok Ming, Tommy
(re-designated as non-executive director on 3 January 2012)

Independent non-executive directors:

Mr. Liang Jin An
Mr. Ng Lok Kei *(appointed on 10 June 2011)*
Mr. Chan Hon Yuen *(appointed on 30 June 2011)*
Mr. Wong Chun Hung *(resigned on 30 June 2011)*
Mr. Cheung Cho Yiu *(resigned on 10 June 2011)*

COMPANY SECRETARY

Mr. Tsang King Sun
(appointed on 18 July 2011)
Mr. Ma Man Wai
(appointed on 13 May 2011 and resigned on 18 July 2011)
Ms. Chuen Pui Ming, Alice
(resigned on 13 May 2011)

SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

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

PRINCIPAL BANKERS

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

LEGAL ADVISORS

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

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

To Shareholders,

On behalf of the board of directors of the Company, I hereby present the annual report for the year ended 31 December 2011.

FINAL DIVIDEND

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

FINANCIAL RESULTS

Year 2011 has been a tumultuous year for the global economy. The global recession slowed down and the world's financial markets are on the brink.

During the year under review, the Group has recognised a loss attributable to the owners of the Company of HK$198.7 million, as compared with a net loss of approximately HK$78.1 million in last year. The loss per share for the year ended 31 December 2011 was HK$0.83. Such increase in net loss was mainly due to a decrease in other income and decrease in turnover with the increase of distribution cost in garment sectors and the administrative expense of new established fashion design business and also the impairment of the exploration and evaluation assets.

The Group turnover was HK$25.7 million, representing a 87% decrease over the corresponding figure of HK$198 million in the last year. The decrease was mainly because the management adopted a prudent approach in accepting sale order/even stopped accepting sales order to take sounding under the continued surge in production cost and the change in the sales team during the year. These caused a drop in turnover and distribution cost.

Distribution costs included costs related to sales and marketing functions of the Group and were normally varied proportionally with the revenue. A drop in Group's revenue by 87% but an obviously drop in distribution costs by 86% was attributed to the Group's effective cost control measures. Administrative expenses generally included costs related to the supporting functions of the Group. During the year under review, the administrative expenses increased by 27% to approximately HK$34.7 million. Such significant increase was mainly attributable to the legal and professional fee incurred for the acquisition of the technology business and the increase in salaries.

In prior year, the Group issued convertible bonds in a principal amount of HK$1,680 millions as the consideration for the acquisition of an iron and titanium dioxide mine. In order to reduce the finance costs, the Company redeemed HK$320 million together with interest expenses of approximately HK$2.9 million during the year. Hence, there was a decrease of 25% in finance costs compared with the same period last year.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

Other operating expenses decreased by 98% to HK$0.07 million for the year. Due to the gradual recovery of the economy and to better control the Group's exposure to credit risk and liquidity risk, the Group generally requested the customers to settle payment before delivery of goods and accepted orders from customers with good repayment record. Therefore, during the year under view, impairment of trade receivables decreased by HK$0.75 million to zero.

Furthermore, an impairment loss was recorded for the exploration and evaluation assets since the approval procedure of licence were still in progress as at 31 December 2011.

REVIEW OF OPERATION

Sale of Fabrics, Garments and Accessories

In the year under review were full of challenges both for the industry and the Group. The European debt crisis and slowing US economy continue to haunt business recovery. In addition, the market price of cotton has been a rollercoaster ride during last 12 months. The volatility of cotton market has made hard times harder for the industry, which has already been impacted by rising labor costs and the appreciation of the Renminbi ("RMB").

In respect of operation, the Group purchase cottons worldwide and delivered the cottons to Bangladesh for garment production. The garment will then be sold to United States. Therefore, it generally accepts sales order 2 months before the date of delivery. In view of continuously surge in production cost (cotton), the management prudently accepted sales order to take sounding and therefore caused a decrease in turnover. The decrease in turnover was also due to the change in the sale team during the year.

Mining Business

On 30 March 2010, the Group acquired a mining company in order to broaden the income base of the Group and diversify its business into non-ferrous industry. The mining company held a mining licence under which the company has the right to conduct mining and exploitation works in a mine located at Ziyang County, Shaanxi Province, the PRC.

The application for the PRC approval of the Mine is still in progress and the Group did not have any operation during the year ended 31 December 2011. The directors are of the opinion that the mining plan will be delayed. The Group engaged an independent valuer, to assess the recoverable amount of the exploration and evaluation asset, pursuant to their valuation report, an impairment loss of approximately HK$160,829,000 on the exploration and evaluation assets was made by the Group for the year ended 31 December 2011.

During the year under review, the Group has submitted the application for the licence to the relevant authorities in order to commence the production in the upcoming future. The approval procedures were still in progress as at 31 December 2011.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the mining business recorded a loss of HK$163 million, which was mainly attributable to the impairment loss and administrative expenses.

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

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

(a) Resource summary (includes reserves)

	Tonnage	Grades		Contained metals	
	(Mt)	**TFe (%)**	**TiO_2 (%)**	**TFe (Kt)**	**TiO_2 (Kt)**
Taoyuan area					
Measured and indicated	40.7	29.4	13.9	11,966	5,655
Inferred	18.2	29.9	13.6	5,442	2,475
Dazuomugou area					
Measured and indicated	9.9	29.5	13.0	2,920	1,287
Inferred	11.1	29.1	13.9	3,230	1,543

(b) Reserve summary

	Tonnage	Grades		Contained metals	
	(Mt)	**TFe (%)**	**TiO_2 (%)**	**TFe (Kt)**	**TiO_2 (Kt)**
Taoyuan area					
Proved	21.5	29.4	14.0	6,321	2,996
Probable	19.2	29.4	13.8	5,645	2,650
Dazuomugou area					
Proved	—	—	—	—	—
Probable	9.9	29.5	13.0	2,920	1,287

There has been no material change in the estimated reserves and resources of the Group's iron and titanium dioxide mines prepared by Lofty Appraisal Limited as of 31 December 2011, and the estimated iron and titanium dioxide reserves and resources as of 31 December 2011 are set out in the table above.

Fashion design

During the year, the Group carries out design and related services and sales of designer products.

Since the business was just started in late 2011, it recorded a loss of HK$5.5 million, which was mainly attributable to the administrative expenses.

Trading in Securities

In order to have a better use of the Group's cash in hand, the Group started trading in securities in prior year. However, due to the economic recession in United States and Eurozone countries, the stock market in Hong Kong remained uncertain and fluctuated throughout the year. Hence, a loss on trading of securities of approximately HK$116,000 was recorded during the year.

Money lending business

On 23 August, 2011, the Group obtained the money lenders licence and also stepped into the money lending business.

The main objective of the money lending business is to use the Group's available fund to provide money lending services to potential clients to meet their financial needs and for the Group to generate reasonable interest income. The Group also adopted a prudent approach and a detailed approval process in accepting a potential client.

During the year under review, the money lending business recorded a profit of HK$0.75 million which represented interest income on loan receivables.

Prospect and Outlook

The Group expects that the year 2012 will still be a challenging year for textile industry. The American economy remained in a delicate state. What is more, the continuously high unemployment rate and declining home values have weighted down on consumer confidence. The US customers will remain cost conscious and keen to look for other regions with the lowest production costs. Accordingly, the Group anticipates that price competition for order from US customers will be fierce due to the aforesaid reasons. In addition, the Group will be facing an unprecedented challenge in the form of sever hikes in cotton prices, which constitutes a major component of its garment products. Although the challenges in the industry remain inevitably severe, the Group will concentrate its efforts on reinforcing its financial position to overcome the market volatility. To retain the comparative advantages in textile industry in 2012, the Group will continually stick to its profit-oriented strategy, deploy its financial resources only in high profit margin orders, be cautious in sourcing dyed fabrics from reliable fabric suppliers to maintain quality and volume, diversity the customer bases to minimize the downside exposure caused by the financial crisis.

In view of the global investment environment, there are a number of issues contributing to market volatility. Regulatory and fiscal reforms have hurt investor sentiment. The sovereign debt crisis and the ongoing search for a consensus solution have paralyzed the economic recovery in Europe, while engendering a crisis of confidence throughout most of the world. As a result, valuations have fallen in nearly every equity market, and risk – aversion levels have spiked. The financial markets are likely to be more volatile in the coming year. As such, the Group will selectively and prudently invest in the dynamic environment ahead.

With the product output continues to expand, China iron and titanium industry enjoys a rapid development, the national industrial policy encourages iron and titanium industry to develop towards the directions of hi-tech products, at the same time, domestic investment has gradually been increased. Earlier, the China Iron and Steel Association projected China's total crude steel demand for 2012 till grow 4 per cent to 700 million tones. The Group are proceeding to apply for various licences and permits for operating the mine. The Group considers that the prospect for the mining and sale of metal remains attractive in the year ahead.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

The availability of credit in Hong Kong may be affected by the potential outflow of funds from Hong Kong and rising credit risk premium if the European sovereign debt problems remain unresolved. The Group expects that the money lending business will be beneficial from increased demand under a tightened financing environment. The slow economic recovery in the US and signs of slower economic growth in the PRC will cast uncertainty on the economy growth outlook of Hong Kong. The Group will continue to pursue long-term business growth with prudent capital and funding management in meeting the challenges ahead.

Liquidity and Financial Resources

At 31 December 2011, the Group had total assets of HK$1,768.8 million which were financed by total liabilities of HK$342.2 million and equity of HK$1,426.6 million. Accordingly, the Group's ratio of debts to total assets and debts to equity are 19.3% (2010: 30.9%) and 24.0% (2010: 44.7%), respectively.

The Group generally financed its operation by internal cash resources, bank financing and several fund raising activities, including placing of new shares and rights issue. At 31 December 2011, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK$42 million (of which about HK$6 million was pledged with banks for trade finance facilities for the Group) and unutilised trade finance facilities for a total of about HK$47.7 million, which we consider sufficient for normal daily operation and expansion in 2012.

CAPITAL STRUCTURE

On 24 January 2011, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a fully underwritten basis, a total of 980,000,000 placing shares to not less than 6 independent placees at a price of HK$0.0245 per placing shares. The net proceeds from the placement of approximately HK$23 million will be used for general working capital of the Group.

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

On 22 March 2011, the Company entered into another placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a fully underwritten basis, a total of 58,000,000 placing shares to not less than 6 independent placees at a price of HK$0.25 per placing share. The net proceeds from the placement of approximately HK$13.9 million will be used for general working capital of the Group.

On 25 July 2011, the Company issued 77,446,713,546 shares by rights issue in the proportion of twenty two rights shares for every one existing share held on 28 June 2011, at a subscription price of HK$0.05 per rights share.

On 7 October 2011, every twenty issued and unissued shares of HK$0.02 each be consolidated into 1 consolidated share of HK$0.40 each and reduce the par value of each consolidated share from HK$0.40 to HK$0.001 each by cancelling the paid-up capital to the extent of HK$0.399 on each consolidated share.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

On 7 March 2012, the Company has entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place through the placing agent. On a fully under untitled basis, a total of 80,980,000 placing shares to not less than six placees at a price of HK$0.20 per placing share. The placing of new shares, with net proceeds of approximately HK$16 million, was completed on 20 March 2012.

Apart from the above, there was no change in the capital structure of the Company during the year under review and up to the date of this report.

PLEDGE OF ASSETS

At 31 December 2011, the Group's bank deposits of approximately HK$6 million were pledged with banks for trade finance facilities of the Group.

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

At 31 December 2011, the Group employed about 34 employees including sales and merchandising, accounting and administrative staff in Hong Kong and the PRC. The total staff costs and directors' remuneration for the year were approximately HK$14.5 million. Employees are remunerated based on market and industry practice. The remuneration policy and package of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

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

On 8 September 2011, the Company and its indirect wholly-owned subsidiary, Sky Treasure Worldwide Limited ("ST"), entered into a Supplemental Share Purchase Agreement with an independent third party (as the vendor) for the acquisition of the entire issued share capital of m3 Technology Development Limited (the "Target Company") at a consideration of HK$398 million. The Target Company is principally engaged in the supply of telecommunication and information technology services. The business overview for the technology industry has also been considered favorable. The Group viewed this as providing the opportunity for the Group to penetrate the technology industry and to diversify its existing business.

APPRECIATION

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

Wong Man Pan
Executive Director

Hong Kong, 30 March 2012

PROFILE OF THE MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wong Man Pan, aged 31, was appointed as an executive director on 6 October 2010. He holds Master and Bachelor's (Hons) degree in Mechanical Engineering from The Hong Kong Polytechnic University. Mr. Wong has concrete knowledge and experience in project management and strategic planning in the manufacturing sector over 8 years.

Mr. Yim Hin Keung, aged 38, was appointed as an executive director on 10 August 2010. He is known by the public as the Champion of Apprentice Jockey Award in 1994-1995 and 1995-1996 respectively. He is a sport commentator in Hong Kong Jockey Club and racing booklet writer in Hong Kong Daily News. Besides, he has been strategic investors and directors of different companies over the past 8 years in such industries as agricultural, chemicals, manufacturing and trading. Mr. Yim's extensive experience in investing and strong business networks are solid assets to the Company.

Mr. Tsang King Sun, aged 28, was appointed as executive director and company secretary of the Company on 18 July 2011. He is a member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Business Administration (Hons) degree in Accounting from The Hong Kong Polytechnic University. He had worked at Big Four International Accounting Firms and gained extensive experience in accounting, auditing practices and financial management. He had experience in auditing various listed companies and experience in various due diligence projects.

Mr. Fu Zhenjun, aged 42, is responsible for the business development of the Group. He has over 20 years of experience in sales and marketing. He has deep connection and relationship with people engaged in this aspect. Prior to joining the Group, he provided Enterprise Process Management services to some well-known PRC enterprises. He does not hold any position with the Company and its subsidiaries, nor has he held any directorship in any listed public companies in the past three years.

NON-EXECUTIVE DIRECTOR

Mr. Yiu Kwok Ming, Tommy, aged 50, was appointed as the Vice-Chairman and the Managing Director of the Company on 18 August 1999. Mr. Yiu was re-designated from the executive director and managing director to a non-executive director on 3 January 2012. Mr. Yiu has extensive experience in the textile and dyeing industries in Hong Kong and the PRC. He holds a bachelor degree in accounting from San Francisco State University of California. Prior to joining the Group in 1987, he worked for Exxon Corporation, a listed company in the United States, in its accounting and administration division.

PROFILE OF THE MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liang Jin An, aged 45, was appointed as an independent non-executive director on 25 July 2007. He has over 21 years of experience in finance, general management and property development in the PRC. He is currently a vice president and vice general manager of a privately-owned cosmetics manufacturing company in Guangzhou, the PRC. He was previously the financial controller and vice general manager of a well established property developer in Guangzhou from 1997 to 2005.

Mr. Chan Hon Yuen, aged 31, holds a bachelor's degree in accountancy from The Hong Kong Polytechnic University. Mr. Chan has extensive experiences in auditing, accounting and financial management. Mr. Chan previously worked as an Assistant Accounting Manager in a listed multinational construction and engineering group, and also worked at one of the Big Four International Accounting Firms and involved in various listed company audit engagements. Mr. Chan is a member of the Association Chartered Certified Accountants.

Mr. Ng Lok Kei, aged 31, has served in an international trading company, which business areas includes electronics, fabrics, garments and toys trading. Mr. Ng is responsible for oversea markets development and business operations. Mr. Ng also worked in AIA Insurance to sell investment funds, and he also worked in a large property development company as an investment advisers, responsible for China and Hong Kong business strategy planning, including the sales of land, acquisition of old buildings and shopping malls. Before Mr. Ng joined the Group, he worked in a foreign financial company, he was responsible for corporate strategy planning, and searching for investment opportunities in mining, media and property areas, to diversify sources of income and to increase the competitiveness of the company. Mr. Ng has over ten years of experience in international trading and financial investment. He is specializing in cost control, marketing strategies, and financial management.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The Board, currently comprises four executive directors, namely Mr. Wong Man Pan, Mr. Yim Hin Keung, Mr. Tsang King Sun and Mr. Fu Zhenjun one non-executive director, namely Mr. Yiu Kwok Ming, Tommy, and three independent non-executive directors, namely Mr. Chan Hon Yuen, Mr. Ng Lok Kei, and Mr. Liang Jin An. The independent non-executive directors are all experienced individuals from a range of industries. Their mix of skills and experience is an important element in the proper functioning of the board and in ensuring a high standard of objective debate and overall input to the decision-making process. The independent non-executive directors may seek for professional advice at the Company's expenses in carrying out their functions. Pursuant to the Listing Rules, every independent non-executive director has confirmed his independence with the Stock Exchange and provided an annual confirmation of his independence to the Company. The biographical details of all directors and their family relationship, if any, are provided on pages 9 to 10 of this annual report. The Board had arranged insurance cover for their directors.

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

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

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

Members	Number of Board meetings attended/held	Percentage of Board meetings attended
Executive directors		
Mr. Chan Yiu Fai	6/79	7%
Mr. Wong Man Pan	74/79	93%
Mr. Yim Hin Keung	74/79	93%
Mr. Tsang King Sun	47/79	59%
Non-executive director		
Mr. Yiu Kwok Ming, Tommy	5/79	6%
Independent non-executive directors		
Mr. Chan Hon Yuen	40/79	50%
Mr. Cheung Cho Yiu	0/79	0%
Mr. Wong Chun Hung	6/79	7%
Mr. Liang Jin An	10/79	12%
Mr. Ng Lok Kei	35/79	44%

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

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

TERMS OF APPOINTMENTS AND RE-ELECTION OF DIRECTORS

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

At 31 December 2011, the Audit Committee comprises three independent non-executive directors, namely Mr. Chan Hon Yuen (Chairman of the Committee), Mr. Ng Lok Kei and Mr. Liang Jin An. Two meetings were held during the year.

Members	Number of Audit Committee meetings attended/held	Percentage of Audit Committee meetings attended
Independent non-executive directors		
Mr. Chan Hon Yuen	1/2	50%
Mr. Ng Lok Kei	1/2	50%
Mr. Liang Jin An	2/2	100%

The major roles and functions of the Audit Committee are as follows:

Relationship with the Company's auditor

(a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(d) to act as the key representative body for overseeing the Company's relations with the external auditor;

CORPORATE GOVERNANCE REPORT

Review of the Company's financial information

(e) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting;

(f) Regarding (e) above:

(i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditors; and

(ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Oversight of the Company's financial reporting system and internal control procedures

(g) to review the Company's controls, internal control and risk management systems;

(h) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(i) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(j) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

CORPORATE GOVERNANCE REPORT

(k) to review the Group's financial and accounting policies and practices;

(l) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

(m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(n) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

(o) to report to the Board on the matters in the relevant code provision stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; and

(p) to consider other topics, as defined by the Board.

During the year, the Audit Committee reviewed and discussed the financial reporting matters, including the review of the interim and annual consolidated financial statements and the appointment of external auditors.

REMUNERATION COMMITTEE

The Remuneration Committee was established to determine the compensation structure and rewards for the CEO and other executive directors and monitors the policies being applied in remunerating other senior executives. The Remuneration Committee comprises three independent non-executive directors, namely Mr. Liang Jin An (Chairman of the Committee), Mr. Ng Lok Kei and Mr. Chan Hon Yuen, and one executive director, namely Mr. Wong Man Pan. During the year, one Remuneration Committee meeting had been convened to discuss the remuneration policy of the Group.

Members	**Number of Remuneration Committee meetings attended/held**	**Percentage of Remuneration Committee meetings attended**
Executive director		
Mr. Wong Man Pan	1/1	100%
Independent non-executive directors		
Mr. Liang Jin An	1/1	100%
Mr. Ng Lok Kei	1/1	100%
Mr. Chan Hon Yuen	1/1	100%

CORPORATE GOVERNANCE REPORT

The major roles and functions of the Remuneration Committee are as follows:

(a) make recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(d) make recommendations to the Board on the remuneration of non-executive directors;

(e) consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

(f) review and approve compensation payable to the executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(g) review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(h) ensure that no director or any of his associates is involved in deciding his own remuneration.

NOMINATION COMMITTEE

The Nomination Committee was established on 28 March 2012 with written terms of reference. The first Nomination Committee meeting was held on 28 March 2012 with all members attended. The nomination committee currently comprises three independent non-executive directors, namely Mr. Chan Hon Yuen (Chairman of the Committee), Mr. Ng Lok Kei and Mr. Liang Jin An, and two executive directors, namely Mr. Wong Man Pan and Mr. Tsang King Sun.

The major roles and functions of the Nomination Committee are as follows:

(a) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

CORPORATE GOVERNANCE REPORT

(c) assess the independence of independent non-executive directors; and

(d) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman of the Board and the chief executive.

FINANCIAL REPORTING

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

The responsibilities of independent external auditors to the shareholders are set out on pages 25 to 26 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

EXTERNAL AUDITORS

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

During the year ended 31 December 2011, the services provided by the Company's independent external auditors to the Group were as follows:

	2011	2010
	HK$'000	*HK$'000*
Audit services	**450**	400
Other assurance services	**—**	310
Non-assurance services	**440**	—

CORPORATE GOVERNANCE REPORT

COMMUNICATIONS WITH SHAREHOLDERS

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

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

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 16 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 107.

The directors do not recommend the payment of a dividend in respect of the year (2010: Nil).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 31 and note 32(b) to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company had no distributable reserves. However, the Company's share premium account, in the amount of HK$1,213,244,000 (2010: HK$959,486,000) may be distributed in the form of fully paid bonus shares and the Company's contributed surplus is available for distribution under the conditions as detailed in note 32(b) to the financial statements.

DONATIONS

During the year, the Group made charitable donations amounting to HK$107,000 (2010: HK$40,250).

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of the movements in property, plant and equipment and investment properties of the Group are set out in notes 14 and 15 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 31 to the financial statements.

BANK LOANS

Particulars of bank loans of the Group at 31 December 2011 are set out in notes 27 to the financial statements.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 108. This summary does not form part of the audited financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DIRECTORS

The directors during the year were:

Executive directors

Mr. Wong Man Pan
Mr. Yim Hin Keung
Mr. Tsang King Sun *(appointed on 18 July 2011)*
Mr. Fu Zhenjun *(appointed on 23 March 2012)*
Mr. Chan Yiu Fai *(resigned on 31 May 2011)*
Mr. Yiu Kwok Ming, Tommy *(re-designated as non-executive director on 3 January 2012)*

Non-Executive director

Mr. Yiu Kwok Ming, Tommy *(re-designated as non-executive director on 3 January 2012)*

Independent non-executive directors

Mr. Liang Jin An
Mr. Ng Lok Kei *(appointed on 10 June 2011)*
Mr. Chan Hon Yuen *(appointed on 30 June 2011)*
Mr. Wong Chun Hung *(resigned on 30 June 2011)*
Mr. Cheung Cho Yiu *(resigned on 10 June 2011)*

In accordance with Clause 99 of the Company's bye-laws, Mr. Liang Jin An and Mr. Yiu Kwok Ming will retire by rotation at the forthcoming annual general meeting and pursuant to Clause 102(A) of the Company's bye-laws, Mr. Tsang King Sun, Mr. Ng Lok Kei, Mr. Chan Hon Yuen and Mr. Fu Zhenjun will retire at the forthcoming annual general meeting. All the retiring directors are eligible for re-elections.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in "Related party transactions" set out in note 38 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS

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

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2011, the directors or their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Shares — long position

The Company:

	Number of shares held				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Mr. Yiu Kwok Ming, Tommy	147,197	—	—	—	147,197

Interest in underlying share

The directors of the company have been granted options under the Company's share option scheme, details of which are set out in note 33 to the financial statements.

Save as disclosed above and note 33 to the financial statements, at no time during the year had the directors (including their spouse and children under 18 years of age) have any interest in, or been granted, or exercised, any rights to subscribe for shares or debentures of the Company and its associated corporations.

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

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

Any parties (other than the directors) have long positions in the shares and underlying shares as recorded in the register are required to be kept by the Company pursuant to Section 336 of the SFO. As at 31 December 2011, there are no substantial shareholders.

Interest in underlying shares

Name	Number of underlying shares interested	Percentage of issued share capital at 31 December 2011
Maple Creation Limited *(Note a and b)*	9,092,711	2.24%

Notes:

(a) Maple Creation Limited is legally and beneficially owned as to 100% by Mr. Fung Man Chun. As at 31 December 2011, it held HK$366,800,000 convertible bonds of the Company.

(b) The interest represents the maximum number of new shares which may be issued upon the full conversion of convertible bonds issued by the Company at the adjusted conversion price HK$40.34 per share.

CONNECTED TRANSACTIONS

During the year, the Group had connected transactions set out in notes 35 and 38 to the financial statement, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules. The independent non-executive directors have reviewed the connected transactions with the related parties. In their opinion, these transactions entered into by the Group were:

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

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

Other than those transactions described in notes 35 and 38 to the financial statements, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

— the largest supplier	53%
— five largest suppliers combined	92%

Sales

— the largest customer	50%
— five largest customers combined	94%

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

DIRECTORS' INTEREST IN COMPETING INTEREST

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely, Mr. Chan Hon Yuen, Mr. Ng Lok Kei and Mr. Liang Jin An. Two meetings were held during the current financial year. The Audit Committee had reviewed the audited results of the Group for the year ended 31 December 2011.

AUDITORS

There have been no changes of auditors in the past four years. The financial statements for the years ended 31 December 2010 and 2011 were audited by Ascenda Cachet CPA Limited. A resolution for the reappointment of Ascenda Cachet CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Wong Man Pan
Executive Director

Hong Kong, 30 March 2012

INDEPENDENT AUDITORS' REPORT

Ascenda CACHET
天健德揚

13F Neich Tower
128 Gloucester Road
Wanchai
Hong Kong

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

We have audited the financial statements of Bao Yuan Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 27 to 107, 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 Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

INDEPENDENT AUDITORS' REPORT

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.

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Yuk Tong
Practising Certificate number P03723

Hong Kong
30 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CONTINUING OPERATIONS			
Revenue	5	**25,711**	198,062
Cost of sales		**(21,511)**	(180,606)
Gross profit		**4,200**	17,456
Other income	5	**8,178**	28,934
Fair value loss on investment properties		**—**	(760)
Impairment loss on exploration and evaluation assets		**(160,829)**	—
Distribution costs		**(1,744)**	(12,847)
Administrative expenses		**(34,685)**	(27,341)
Other operating expenses	6	**(68)**	(3,814)
Finance costs	8	**(58,250)**	(78,090)
Loss before tax from continuing operations	7	**(243,198)**	(76,462)
Income tax credit/(expense)	10	**39,521**	(585)
Loss for the year from continuing operations		**(203,677)**	(77,047)
DISCONTINUED OPERATION			
Loss for the year from discontinued operation	12	**—**	(995)
LOSS FOR THE YEAR		**(203,677)**	(78,042)
Loss attributable to:			
Owners of the Company		**(198,747)**	(78,056)
Non-controlling interests		**(4,930)**	14
		(203,677)	(78,042)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic			(Restated)
— For loss for the year		**(HK$0.83)**	(HK$3.99)
— For loss from continuing operations		**(HK$0.83)**	(HK$3.94)
Diluted			
— For loss for the year		**(HK$0.83)**	(HK$3.99)
— For loss from continuing operations		**(HK$0.83)**	(HK$3.94)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011	2010
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(203,677)**	(78,042)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**689**	2,463
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**689**	2,463
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(202,988)**	(75,579)
Total comprehensive income for the year attributable to:		
Owners of the Company	**(198,093)**	(75,617)
Non-controlling interests	**(4,895)**	38
	(202,988)	(75,579)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,895**	885
Exploration and evaluation assets	17	**1,539,000**	1,698,481
Intangible asset	18	**3,800**	—
Deposit paid for the acquisition of a subsidiary	24	**80,000**	—
Available-for-sale investments	19	**590**	590
Deferred tax asset	20	**40,207**	—
Total non-current assets		**1,666,492**	1,699,956
CURRENT ASSETS			
Inventories	21	**446**	—
Loan receivables	22	**20,974**	—
Trade and bills receivables	23	**1,255**	1,436
Prepayments, deposits and other receivables	24	**8,660**	1,886
Equity investments at fair value through profit or loss	25	**29,038**	2,989
Pledged deposits	26	**6,003**	1,873
Cash and cash equivalents	26	**35,979**	136,777
Total current assets		**102,355**	144,961
CURRENT LIABILITIES			
Bank overdrafts, secured	27	**267**	1,033
Trust receipt loans, secured	27	**—**	441
Trade payables	28	**932**	6,805
Other payables and accruals	29	**27,425**	28,700
Tax payable		**1,958**	1,268
Total current liabilities		**30,582**	38,247
NET CURRENT ASSETS		**71,773**	106,714
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,738,265**	1,806,670
NON-CURRENT LIABILITY			
Convertible bonds	30	**311,600**	532,107
Net assets		**1,426,665**	1,274,563

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	**2011** *HK$'000*	2010 *HK$'000*
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*31*	**405**	4,902
Equity component of convertible bonds	*30*	**112,551**	210,741
Reserves	*32(a)*	**1,316,067**	1,056,383
		1,429,023	1,272,026
Non-controlling interests		**(2,358)**	2,537
Total equity		**1,426,665**	1,274,563

Wong Man Pan
Director

Tsang King Sun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Attributable to owners of the Company												
	Share capital	Share premium#	Contributed surplus#	Property revaluation reserves#	Statutory surplus reserve#	Employee share option reserves#	Capital reserves#	Equity component of convertible bonds	Exchange reserves#	Accumulated losses#	Total	Non-controlling interests	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
	Note 31	Note 32a	Note 32a	Note 32a	Note 32a	Note 32a	Note 32a						
At 1 January 2010	19,217	71,148	–	35,275	7,611	1,736	52,694	–	11,667	(150,182)	49,166	4,768	53,934
Loss for the year	–	–	–	–	–	–	–	–	–	(78,056)	(78,056)	14	(78,042)
Other comprehensive income	–	–	–	–	–	–	–	–	2,439	–	2,439	24	2,463
Total comprehensive income for the year	–	–	–	–	–	–	–	–	2,439	(78,056)	(75,617)	38	(75,579)
Issue of convertible bonds	–	–	–	–	–	–	–	515,501	–	–	515,501	–	515,501
Issue of shares upon conversion of convertible bonds	187,091	649,837	–	–	–	–	–	(252,596)	–	–	584,332	–	584,332
Redemption of convertible bonds	–	–	–	–	–	–	–	(52,164)	–	–	(52,164)	–	(52,164)
Issue of shares upon exercise of share options	80	96	–	–	–	(64)	–	–	–	–	112	–	112
Share options lapsed	–	–	–	–	–	(128)	–	–	–	128	–	–	–
Issue of shares through placement	20,668	24,875	–	–	–	–	–	–	–	–	45,543	–	45,543
Capital reduction	(226,512)	–	226,512	–	–	–	–	–	–	–	–	–	–
Issue of rights shares	4,358	213,530	–	–	–	–	–	–	–	–	217,888	–	217,888
Disposal of investment properties	–	–	–	(539)	–	–	–	–	–	539	–	–	–
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	1,142	1,142
Disposal of subsidiaries	–	–	–	(34,736)	(7,611)	–	(52,715)	–	(13,644)	95,062	(13,644)	(7)	(13,651)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(3,404)	(3,404)
Equity-settled share option arrangements	–	–	–	–	–	909	–	–	–	–	909	–	909
At 31 December 2010 and 1 January 2011	4,902	959,486	226,512	–	–	2,453	(21)	210,741	462	(132,509)	1,272,026	2,537	1,274,563
Loss for the year	–	–	–	–	–	–	–	–	–	(198,747)	(198,747)	(4,930)	(203,677)
Other comprehensive income	–	–	–	–	–	–	–	–	654	–	654	35	689
Total comprehensive income for the year	–	–	–	–	–	–	–	–	654	(198,747)	(198,093)	(4,895)	(202,988)
Redemption of convertible bonds	–	–	–	–	–	–	–	(98,190)	–	41,647	(56,543)	–	(56,543)
Issue of shares through placement	2,140	34,795	–	–	–	–	–	–	–	–	36,935	–	36,935
Capital reduction *(note 31(n))*	(161,572)	–	161,572	–	–	–	–	–	–	–	–	–	–
Issue of rights shares *(note 31(m))*	154,935	218,963	–	–	–	–	–	–	–	–	373,898	–	373,898
Equity-settled share option arrangements	–	–	–	–	–	800	–	–	–	–	800	–	800
At 31 December 2011	405	1,213,244	388,084	–	–	3,253	(21)	112,551	1,116	(289,609)	1,429,023	(2,358)	1,426,665

\# These reserve accounts comprise the consolidated reserves of approximately HK$1,316,067,000 (2010: HK$1,056,383,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax			
From continuing operations		**(243,198)**	(76,462)
From discontinued operation	12	**—**	(995)
Adjustments for:			
Depreciation	14	**284**	878
Amortisation of intangible asset	18	**200**	—
Interest income	5	**(60)**	(248)
Interest expenses	8	**95**	1,612
Finance lease charges		**—**	66
Interest on convertible bonds	30	**58,024**	75,364
Fair value loss on investment properties	15	**—**	760
Fair value (gain)/loss on equity investments at fair value through profit or loss	5, 6	**(6,062)**	1,911
Gain on disposal of property, plant and equipment	5	**(255)**	(20)
Write off of plant and machinery	14	**—**	45
Gain on disposal of investment properties	5	**—**	(6,926)
Gain on disposal of subsidiaries	5	**—**	(17,654)
Loss on disposal of equity investment at fair value through profit or loss	5	**116**	—
Impairment on asset classified as held for sales		**—**	995
Impairment loss on exploration and evaluation assets	17	**160,829**	—
Share-based payment		**800**	909
		(29,227)	(19,765)
Increase in inventories	21	**(446)**	—
Decrease in trade and bills receivables	23	**181**	3,299
Increase in other receivables, prepayment and deposits	24	**(6,774)**	(75)
Increase in loan receivables	22	**(20,974)**	—
(Decrease)/increase in trade payables	28	**(5,873)**	4,403
Decrease in other payables and accruals	29	**(1,275)**	(6,692)
Effect of foreign exchange rate changes		**13**	(911)
Cash used in operations		**(64,375)**	(19,741)
Hong Kong profits tax paid		**—**	(98)
Interest paid	8	**(95)**	(1,612)
Finance lease charges paid		**—**	(66)
Net cash flows used in operating activities		**(64,470)**	(21,517)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	**2011 HK$'000**	2010 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**60**	248
(Increase)/decrease in pledged bank deposits	26	**(4,130)**	993
Purchases of items of property, plant and equipment	14	**(2,453)**	(769)
Payment of acquisition of equity investment at fair value through profit or loss		**(109,276)**	(4,900)
Deposit paid for the acquisition of a subsidiary	24	**(80,000)**	—
Purchase of intangible asset	18	**(4,000)**	—
Additions of exploration and evaluation asset	17	**(813)**	—
Proceeds from disposal of items of property, plant and equipment		**414**	20
Proceeds from disposal of an investment properties		**—**	14,679
Proceeds from disposal of equity investment at fair value through profit or loss		**89,172**	—
Acquisition of subsidiaries	34	**—**	553
Disposal of subsidiaries	35	**—**	44,958
Effect on foreign exchange rate change		**—**	1,680
Net cash flows (used in)/from investing activities		**(111,026)**	57,462
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**—**	(14,588)
Repayment of finance lease obligation		**—**	(44)
Repayment to a related company		**—**	(646)
Interest in amounts due to directors		**—**	16,369
Decrease in amount due to shareholder		**—**	(6,013)
Dividends paid to non-controlling interests		**—**	(3,404)
Proceeds from issues of shares		**36,935**	45,543
Proceeds from rights issue		**373,898**	217,888
Proceeds from exercise of share options		**—**	112
Redemption of convertible bonds	30	**(320,000)**	(170,000)
Interest paid on convertible bonds	30	**(15,073)**	(2,465)
Net cash flow from financing activities		**75,760**	82,752
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(99,736)**	118,697
Cash and cash equivalents at beginning of year		**135,303**	16,594
Effect of foreign exchange rate change, net		**145**	12
CASH AND CASH EQUIVALENTS AT END OF YEAR		**35,712**	135,303
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**35,979**	135,217
Non-pledged time deposits		**—**	1,560
Cash and cash equivalents as stated in the consolidated statement of financial position		**35,979**	136,777
Bank overdrafts, secured		**(267)**	(1,033)
Trust receipt loans repayable within three months		**—**	(441)
Cash and cash equivalents at stated in the consolidated statement of cash flows		**35,712**	135,303

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**395**	471
Interests in subsidiaries	16	**1,699,824**	1,700,703
Total non-current assets		**1,700,219**	1,701,174
CURRENT ASSETS			
Other receivables, prepayments and deposits	24	**637**	813
Cash and cash equivalents	26	**6,626**	117,187
Total current assets		**7,263**	118,000
CURRENT LIABILITIES			
Other payables and accruals	29	**3,527**	3,894
Total current liabilities		**3,527**	3,894
NET CURRENT ASSETS		**3,736**	114,106
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,703,955**	1,815,280
NON-CURRENT LIABILITY			
Convertible bonds	30	**311,600**	532,107
Total non-current liability		**311,600**	532,107
NET ASSETS		**1,392,355**	1,283,173
EQUITY			
Issued capital	31	**405**	4,902
Equity component of convertible bonds	30	**112,551**	210,741
Reserves	32(b)	**1,279,399**	1,067,530
TOTAL EQUITY		**1,392,355**	1,283,173

Wong Man Pan
Director

Tsang King Sun
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2011

1. CORPORATE INFORMATION

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

The Company and its subsidiaries (collectively, the "Group") were principally engaged in the sales of fabrics and garments and other related accessories in Hong Kong, the United States and the Peoples' Republic of China (the "PRC"), iron and titanium exploration, development and mining in the PRC, securities investment, fashion business and money lending business during the year. Fashion business and money lending business are newly developed by the Group during the year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Company Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for investment properties and equity investments at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars 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 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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 HKRFS 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 HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised 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 emphasis 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 38 to the consolidated financial statements.

(b) *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 amendments most applicable to the Group are as follows:

(i) HKFRS 3 *Business Combinations:* The amendment clarifies that the amendments of HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. *(continued)*

(ii) 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 financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of change in equity.

(iii) HKAS 27 *Consolidated and Separate Financial Statement*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but 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 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangement[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Management[4]
HKAS 1 Amendments	Presentation of Financial Statement — Presentation of Items of Other Comprehensive Income[3]
HKAS 12 Amendments	Amendments to HKAS 12 Income Taxes — Deferred Taxes: Recovery of Underlying Assets[2]
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities[5]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]
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 both Group's results of operations and financial position.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in 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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations and goodwill *(continued)*

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.

Acquisition of assets

For the acquisition of mining licences effected through a non-operating corporate structure that does not represent a business, it is considered that the transactions does not meet the definition of a business combination. Accordingly the transaction is accounted for as the acquisition of an asset. The net assets acquired are recognised at cost allocated based on the fair value of the respective assets acquired.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, inventories and financial assets), 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 group of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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;

(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 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, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In 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 to its residual value over its estimated useful life. The principle estimated useful lives of property, plant and equipment are as follows:

Leasehold improvements	5% to 10%
Furniture and fixtures	20%
Motor vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investment properties

Investment properties are interests in land and buildings 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.

Exploration and evaluation assets

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases including prepaid land premium under finance lease, 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.

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 rental 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 leasee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

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

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 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.

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 income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investment 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 investments 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 investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, 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 investments 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

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

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 asset. 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 investment 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.

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 where:

- 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 is 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

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 significantly, 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 and all collateral has been realised or has been transferred to the Group.

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

Assets carried at cost

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

Available-for-sale financial investments

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the 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 judgment. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, accruals, bank overdrafts, trust receipt loans and convertible bonds.

Subsequent measurement

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

Loans and borrowings

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

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

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, 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 proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

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

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

Fair value of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first in, first out basis and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. 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 positions, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of 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 consolidated 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 law) 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 reporting date 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 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 and associates, 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carry forward 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 carry forward 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 and associates, 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 each reporting date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each of the end of the reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the end of the reporting period.

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

Revenue recognition

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

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

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

(c) 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

(d) securities trading, when the significant risks and rewards of ownership have been transferred to the buyer; 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 after 7 November 2002 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 Black-Scholes model, further details of which are given in note 32 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.

Other employee benefits

Pension scheme

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions 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 reporting date. All differences arising on settlement or translation of monetary items are taken to 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 the 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).

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

The resulting exchange differences are included in a separate component of the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

NOTES TO FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial information 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

In the process of applying the Group's accounting policies, management has made the judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of trade and loans receivables

The Group reviews its loan portfolios to assess whether there is any objective evidence that a trade or loan receivable is impaired at least on a yearly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of trade and loans receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methods and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The aggregate carrying amount of trade and loans receivable at 31 December 2011 was HK$1,255,000 and HK$20,974,000, respectively (2010: HK$1,436,000 and HK$ nil). More details are given in notes 23 and 22 to the financial statements.

Useful lives of property, plant and equipment

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

Estimated fair value of financial assets

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

NOTES TO FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION

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

Continuing operations

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

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

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

(d) the securities segment is trading of securities;

(e) the fashion business segment is the provision of design and related services and sales of designers' products; and

(f) the money lending segment is the provision of loan financing.

The fashion business segment and money lending segment were new business segments developed by the Group during the year.

Discontinued operation during year ended 31 December 2010

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

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 before tax from continuing operations except that interest income, finance cost, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

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

Segment liabilities exclude convertible bonds, tax payable 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.

NOTES TO FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Year ended 31 December 2011 *(continued)*

	Year ended 31 December 2011								
	Continuing operations							Discontinued operation	
	Sales of fabrics HK$'000	Sales of garments and accessories HK$'000	Mining HK$'000	Securities HK$'000	Money lending business HK$'000	Fashion business HK$'000	Sub-total HK$'000	Fabric processing HK$'000	Total HK$'000
Segment revenue									
Sales to external customers	1,618	23,225	–	(36)	874	30	25,711	–	25,711
Segment results	35	(2,324)	(163,371)	5,171	752	(5,514)	(165,251)	–	(165,251)
Reconciliation:									
Interest income and unallocated gains							85	–	85
Corporate and other unallocated expenses							(19,782)	–	(19,782)
Finance costs							(58,250)	–	(58,250)
Loss before tax							(243,198)	–	(243,198)
Segment assets	2	1,971	1,539,386	4,421	21,179	7,803	1,574,762	–	1,574,762
Reconciliation:									
Unallocated assets							194,085	–	194,085
Total assets							1,768,847	–	1,768,847
Segment liabilities	15	1,680	–	9	6	218	1,928	–	1,928
Reconciliation:									
Unallocated liabilities							340,254	–	340,254
Total liabilities							342,182	–	342,182
Other segment information									
Capital expenditure	–	–	827	–	90	5,906	6,823	–	6,823
Reconciliation:									
Unallocated capital expenditure							443	–	443
							7,266	–	7,266
Depreciation and amortisation	–	140	4	–	2	232	378	–	378
Reconciliation:									
Unallocated depreciation and amortisation							106	–	106
							484	–	484
Write back of impairment loss on trade and bills receivables	(58)	–	–	–	–	–	(58)	–	(58)

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Year ended 31 December 2010

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

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Geographical information

	For the year ended 31 December 2011					
	Hong Kong *HK$'000*	**United States** *HK$'000*	**The PRC** *HK$'000*	**Italy** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Revenue						
Sales to external customers	**1,625**	**12,742**	**—**	**10,347**	**997**	**25,711**
Segment assets	**184,553**	**209**	**1,582,620**	**1,174**	**291**	**1,768,847**
Capital expenditure	**5,539**	**—**	**1,728**	**—**	**—**	**7,267**

	For the year ended 31 December 2010					
	Hong Kong *HK$'000*	United States *HK$'000*	The PRC *HK$'000*	Italy *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue						
Sales to external customers	47,289	135,132	7,273	4,858	3,510	198,062
Revenue from discontinued operation	—	—	—	—	—	—
Revenue from continuing operations	47,289	135,132	7,273	4,858	3,510	198,062
Segment assets	140,943	1,124	1,702,678	32	140	1,844,917
Capital expenditure	769	—	7	—	—	776

Revenue of approximately HK$23,087,000 (2010: HK$135,104,000) was derived from sales of garments and accessories segment to major customers.

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5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of sales of fabrics, garments and other related accessories, after allowances for returns and trade discounts, income from provision of fabric processing services, and profit/(loss) from trading of securities, dividend income and interest income. During the year, the Group did not generate any income from the mining business.

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

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Sales of fabrics	**1,618**	56,643
Sales of garments and accessories	**23,255**	140,948
Interest income from loan receivables	**874**	—
(Loss)/profit on trading of equity investments at fair value through profit or loss	**(116)**	471
Dividend income from listed equity investments	**80**	—
	25,711	198,062
Other income and gains		
Bank interest income	**60**	248
Rental income	**25**	913
Write back of impairment losses on trade and bills receivables	**58**	919
Commission income	**1,060**	1,474
Gain on disposal of investment properties	**—**	6,926
Gain on disposal of items of property, plant and equipment	**255**	20
Gain on disposal of subsidiaries	**—**	17,654
Scrap sales	**—**	718
Net fair value gains on equity investments at fair value through profit of loss	**6,062**	—
Others	**658**	62
	8,178	28,934
Total revenue, other income and gains	**33,889**	226,996

6. OTHER OPERATING EXPENSES

An analysis of other operating expenses of the Group is as follows:

	Continuing operations	
	2011	2010
	HK$'000	*HK$'000*
Impairment loss on trade and bills receivables	**—**	269
Impairment loss on deposits paid	**—**	265
Impairment loss on other receivables	**—**	36
Write off of trade and bills receivables	**—**	534
Fair value loss on equity investments through profit or loss	**—**	1,911
Write off of plant and machinery	**—**	45
Exchange losses	**68**	714
Others	**—**	40
	68	3,814

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7. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

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

	Notes	2011 HK$'000	2010 HK$'000
Auditors' remuneration		**450**	400
Costs of inventories sold:			
Continuing operations		**21,511**	180,606
Depreciation	*14*	**284**	878
Amortisation of intangible assets	*18*	**200**	—
Exchange loss, net	*6*	**68**	714
Fair value loss on investment properties	*15*	**—**	760
Impairment loss on trade and bills receivables	*23*	**—**	269
Impairment loss on other receivables and deposits	*24*	**—**	301
Write off of trade and bills receivables	*23*	**—**	534
Minimum lease payments under operating leases — land and buildings		**2,866**	1,365
Staff costs (excluding directors' remuneration *(note (9))*:			
Salaries and allowances		**10,957**	14,168
Retirement benefit costs		**282**	289
Equity-settled share option expenses		**400**	234
		11,639	14,691
Bank interest income	*5*	**(60)**	248
Fair value gains on equity investments at fair value through profit or loss	*5*	**(6,062)**	—
Gross rental income less outgoings	*5*	**(25)**	(913)
Gain on disposal of investment properties		**—**	(6,926)
Gain on disposal of items of property, plant and equipment	*5*	**(255)**	(20)
Gain on disposal of subsidiaries		**—**	(17,654)
Write back of impairment losses on trade and bills receivables	*23*	**(58)**	(919)

8. FINANCE COSTS

An analysis of finance costs of the Group is as follows:

	2011 *HK$'000*	2010 *HK$'000*
Bank charges	**131**	1,048
Interest on bank loans and overdrafts	**88**	352
Interest on other loans	**7**	1,260
Finance lease charges	**—**	66
Interest on convertible bonds *(note 30)*	**58,024**	75,364
	58,250	78,090

9. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

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

	2011 *HK$'000*	2010 *HK$'000*
Fees	**218**	159
Other emoluments:		
Salaries, allowances and benefits in kind	**2.183**	3,227
Equity-settled share option expenses	**400**	675
Retirement benefit costs	**73**	99
	2,656	4,001
	2,874	4,160

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

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

For the year ended 31 December 2011

Name of directors	Fees HK$'000	Salary, allowances and benefit in kind HK$'000	Retirement benefit costs HK$'000	Equity-settled share option expenses HK$'000	Total HK$'000
Executive directors					
Yiu Kwok Ming, Tommy	—	1,078	38	400	1,516
Chan Yiu Fai *(note a)*	—	129	5	—	134
Yim Hin Keung *(note b)*	—	299	12	—	311
Wong Man Pan *(note c)*	—	441	12	—	453
Tsang King Sun *(note i)*	—	236	6	—	242
	—	2,183	73	400	2,656

Name of directors	Fees HK$'000
Independent non-executive directors	
Cheung Cho Yiu *(note j)*	28
Liang Jin Au	28
Wong Chun Hung *(note g)*	35
Ng Lok Kei *(note k)*	67
Chan Hon Yuen *(note l)*	60
	218

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

For the year ended 31 December 2010

Name of directors	Fees HK$'000	Salary, allowances and benefit in kind HK$'000	Retirement benefit costs HK$'000	Equity-settled share option expenses HK$'000	Total HK$'000
Executive directors					
Yiu Kwok Ming, Tommy	—	1,161	42	422	1,625
Chan Yiu Fai *(note a)*	—	159	6	—	165
Yim Hin Keung *(note b)*	—	117	5	—	122
Wong Man Pan *(note c)*	—	67	3	—	70
Wong Wai Man *(note d)*	—	830	12	21	863
Leung Kwok Ip *(note e)*	—	381	7	17	405
Yiu Ching On *(note f)*	—	512	24	215	751
	—	3,227	99	675	4,001

During the prior years, a director of Company was granted share options, in respect to his service to the Group, under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such 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 for the current year is included in the above directors' remuneration disclosures.

Name of directors	Fees HK$'000
Independent non-executive directors	
Cheung Cho Yiu *(note j)*	48
Liang Jin Au	48
Wong Chun Hung *(note g)*	35
Chan Kin Wah, Billy *(note h)*	28
	159

Notes:

(a) Mr. Chan Yiu Fai was appointed as executive director of the Company with effect from 12 July 2010 and resigned as executive director with effect from 31 May 2011.

(b) Mr. Yim Hin Keung was appointed as executive director of the Company with effect from 10 August 2010.

(c) Mr. Wong Man Pan was appointed as executive director of the Company with effect from 6 October 2010.

(d) Mr. Wong Wai Man resigned as executive director of the Company with effect from 31 December 2010.

(e) Mr. Leung Kwok Ip resigned as executive director of the Company with effect from 10 August 2010.

(f) Mr. Yiu Ching On resigned as executive director of the Company with effect from 12 July 2010.

(g) Mr. Wong Chun Hung was appointed as independent non-executive director of the Company with effect from 2 July 2010 and resigned as independent non-executive director with effect from 30 June 2011.

NOTES TO FINANCIAL STATEMENTS

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

Notes: (continued)

(h) Mr. Chan Kin Wah, Billy resigned as independent non-executive director of the Company with effect from 2 July 2010.

(i) Mr. Tsang King Sun was appointed as executive director of the Company with effect from 18 July 2011.

(j) Mr. Cheung Cho Yiu resigned as independent non-executive director of the Company with effect from 10 June 2011.

(k) Mr. Ng Lok Kei was appointed as independent non-executive director of the Company with effect from 10 June 2011.

(l) Mr. Chan Hon Yuen was appointed as independent non-executive director of the Company with effect from 30 June 2011.

During the year, there were no other emoluments payable to the independent non-executive directors (2010: Nil).

There was no remuneration paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2010: Nil). There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

Five highest paid employees

The five individuals whose remuneration were the highest in the Group included Nil (2010: one) executive director and one (2010: three*) former executive director. Details of the remuneration of the remaining four (2010: one) highest paid employee and Nil (2010: two) former executive director during the year are as follows:

	2011 *HK$'000*	2010 *HK$'000*
Salaries, allowances	**3,748**	1,327
Retirement benefit costs	**73**	38
Equity-settled share option expenses	**400**	212
	4,221	1,577

* During year ended 2010, two former executive directors were also the highest paid employee after their resignation.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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

Five highest paid employees *(continued)*

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

	2011 Number	2010 Number
Nil — $1,000,000	**2**	3
HK$1,000,000 to HK$1,500,000	**2**	—
	4	3

Mr. Yiu Kwok Ming, Tommy, one of the executive directors, resigned on 3 January 2012. His entire emolument was included as directors' remuneration for the years ended 31 December 2010 and 2011.

10. INCOME TAX

The major components of income tax expense of the Group for the year are as follows:

		Continuing operations	**Discontinued operation**
	2011	2010	2010
	HK$'000	*HK$'000*	*HK$'000*
Current tax — Hong Kong	**686**	306	—
Current tax — overseas	**—**	279	—
Deferred tax — overseas *(note 20)*	**(40,207)**	—	—
	(39,521)	585	—

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

(b) Tax on profits assessable elsewhere is calculated at the rates of tax prevailing in the countries in which the Group operates.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

10. INCOME TAX *(CONTINUED)*

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

Group — 2011

	HK$'000	*%*
Loss before tax from continuing operation	**(243,198)**	
Tax credit calculated at the statutory tax rate	**(40,128)**	**16.5**
Tax effect of expenses not deductible	**1,960**	**(0.8)**
Tax effect of income not taxable	**(32)**	**0.1**
Difference tax rate under different jurisdiction	**(13,884)**	**5.7**
Tax effect of temporary difference on depreciable assets not recognised	**(696)**	**0.3**
Utilisation of previously unrecognised tax losses	**(324)**	**0.1**
Tax loss not recognised	**13,583**	**(5.6)**
Tax credit at effective tax rate	**(39,521)**	**16.3**

Group — 2010

	Continuing operation		Discontinued operation		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Loss before tax	(76,462)		(995)		(77,457)	
Tax credit calculated at the statutory tax rate	(12,838)	16.8	(249)	(25.0)	(13,087)	16.9
Tax effect of expenses not deductible	1,544	(2.0)	249	25.0	1,793	(2.3)
Tax effect of income not taxable	(8,658)	11.3	—	—	(8,658)	11.2
Tax effect of temporary difference on depreciable assets not recognised	39	0.0	—	—	39	0.0
Utilisation of previously unrecognised tax losses	(78)	0.1	—	—	(78)	0.1
Tax loss not recognised	20,576	(26.9)	—	—	20,576	(26.6)
Tax charge at effective tax rate	585	(0.7)	—	—	585	(0.7)

10. INCOME TAX *(CONTINUED)*

As at 31 December 2011, the Group has had losses of approximately HK$391 million (2010: HK$308 million) available to offset future profits. No deferred tax asset has been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the losses can be utilised. Except for tax losses of approximately HK$8 million (2010: HK$28 million) arising in the PRC that are available for offsetting against the following five years' taxable profits of the subsidiaries, the tax losses of approximately HK$383 million (2010: HK$280 million) arising in Hong Kong may be carried forward indefinitely. The effect of temporary differences on depreciable assets is not material.

11. LOSS ATTRIBUTABLE TO THE 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$245,908,000 (2010: HK$82,511,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. DISCONTINUED OPERATION AND ASSETS CLASSIFIED AS HELD FOR SALE

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

On 2 September 2010, the Group entered into a sale and purchase agreement with Cotton Row Limited to dispose of Zhongshan Ching Hing together with several subsidiaries of the Group, which were principally engaged in the business of sale of fabrics and/or garments in the PRC and Hong Kong, at a consideration of HK$45.8 million. Further details of the disposal transaction was set out in a circular of the Company dated 28 September 2010 and the disposal transaction was approved by the shareholders of the Company in a special general meeting on 15 October 2010. The disposal transaction was completed on 29 October 2010. Impairment loss of assets classified as held for sale of HK$995,000 was included in consolidated income statement for the year ended 31 December 2010. There was no discontinued operation and assets classified as held for sale for the year ended 31 December 2011.

The results of the fabric processing operation for the year ended 31 December 2010 are presented below:

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

NOTES TO FINANCIAL STATEMENTS

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

The calculation of basic loss per share amount from discontinued operation was based on the loss for the year from discontinued operation attributable to ordinary equity holders of the Company, and the weighted average number of 305,000 ordinary shares in issue during the year ended 31 December 2010, as adjusted to reflect the share consolidations and rights issue during the year ended 31 December 2011.

The calculation of diluted loss per share amount is based on the loss for the year from discontinued operation attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during the year ended 31 December 2010, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

The calculations of basic and diluted loss per share from the discontinued operation for the year ended 31 December 2010 were based on:

	HK$'000
Loss from the discontinued operation attributable to ordinary equity holders of the Company	995

	Number of shares 2010 *'000* (Restated)
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	19,554

The major classes of assets of Zhongshan Ching Hing classified as assets classified as held for sale as at 31 December 2010 are as follows:

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

There was no cash inflow/outflow from assets classified as held for sale during the years ended 31 December 2010 and 2011.

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

The calculation of basic loss per share amounts from continuing operations and discontinued operation is based on the loss for the year from continuing operations attributable to ordinary equity holders of the Company and the weighted average number of 240,554,000 (2010: 19,554,000 as adjusted) ordinary shares in issue during the year, as adjusted to reflect the share consolidations and rights issue during the year.

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

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2011 and 2010 in respect of a dilution as the share options and convertible bonds outstanding had an anti-dilutive effect on basic loss per share amounts presented.

The calculations of basic loss per share are based on

	2011	2010
	HK$'000	*HK$'000*
Loss		
Loss attributable to ordinary equity holders of the Company, use in the basic loss per share calculation:		
From continuing operations	**(198,747)**	(77,061)
From discontinued operation	**—**	(995)
Loss attributable to ordinary equity holders of the Company	**(198,747)**	(78,056)
Attributable to:		
		(Restated)
Continuing operations	**(HK$0.83)**	(HK$3.94)
Discontinued operation	**—**	(HK$0.05)
	(HK$0.83)	(HK$3.99)

	Number of shares	
	2011	2010
	'000	*'000*
		(Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**240,554**	19,554

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2011					
At 31 December 2010 and 1 January 2011:					
Cost	393	1,166	1,067	—	2,626
Accumulated depreciation	(141)	(763)	(837)	—	(1,741)
Net carrying amount	252	403	230	—	885
At 1 January 2011, net of accumulated depreciation	252	403	230	—	885
Additions	523	1,030	—	900	2,453
Disposals	—	—	(159)	—	(159)
Depreciation provided during the year	(47)	(166)	(71)	—	(284)
At 31 December 2011, net of accumulated depreciation	728	1,267	—	900	2,895
At 31 December 2011					
Cost	916	2,196	360	900	4,372
Accumulated depreciation	(188)	(929)	(360)	—	(1,477)
Net carrying amount	728	1,267	—	900	2,895

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

Group *(continued)*

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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

Company

	Leasehold Improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Total *HK$'000*
31 December 2011			
At 31 December 2010 and 1 January 2011:			
Cost	**266**	**245**	**511**
Accumulated depreciation	**(15)**	**(25)**	**(40)**
Net carrying amount	**251**	**220**	**471**
At 1 January 2011, net of accumulated depreciation	**251**	**220**	**471**
Depreciation provided during the year	**(27)**	**(49)**	**(76)**
At 31 December 2011, net of accumulated depreciation	**224**	**171**	**395**
At 31 December 2011			
Cost	**266**	**245**	**511**
Accumulated depreciation	**(42)**	**(74)**	**(116)**
Net carrying amount	**224**	**171**	**395**
31 December 2010			
Additions	266	245	511
Depreciation provided during the year	(15)	(25)	(40)
At 31 December 2010, net of accumulated depreciation	251	220	471
At 31 December 2010			
Cost	266	245	511
Accumulated depreciation	(15)	(25)	(40)
Net carrying amount	251	220	471

NOTES TO FINANCIAL STATEMENTS

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15. INVESTMENT PROPERTIES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Carrying amount at 1 January	**—**	58,720
Disposals	**—**	(7,753)
Net loss from fair value adjustment	**—**	(760)
Exchange realignment	**—**	1,080
Disposal of subsidiaries	**—**	(51,287)
Carrying amount at 31 December	**—**	—

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	*HK$'000*
Unlisted share, at cost	**1,680,000**	1,680,000
Less: Impairment	**(160,829)**	—
	1,519,171	1,680,000
Due from subsidiaries	**195,804**	20,703
Less: Impairment	**(15,151)**	—
	180,653	20,703
	1,699,824	1,700,703

As at 31 December 2011 and 2010, the amounts due from the subsidiaries are unsecured, interest-free and in substance represent the Company's investment in subsidiaries in form of quasi-equity loans.

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16. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary /registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Target Rich Investment Limited	British Virgin Islands ("BVI")/Hong Kong	US$1	100%	—	Investment holding
Greater China Mining Resources Limited	BVI/The People's Republic of China (the "PRC")	US$100	100%	—	Investment holding
Excel Growth Investments Limited	BVI/Hong Kong	US$1	100%	—	Investment holding
Victory Chain Investment Limited	BVI/Hong Kong	US$1	100%	—	Security investment
South Field (Pacific) Limited	Hong Kong	HK$1,000,101	—	58%	Sale of garments and accessories
Glamour International Limited	Samoa/Hong Kong	US$3	—	100%	Investment holding
Alpha Textile International Limited	Hong Kong	HK$10,000	—	65%	Sale of fabrics
Ching Hing (Holdings) Investment Limited	Hong Kong	HK$10,000	—	100%	Investment holding
Calvin Textiles Limited	Hong Kong	HK$10,000	—	100%	Merchandising services
Mark Joy International Limited	Hong Kong/The PRC	HK$10	—	58%	Investment holding
Shenzhen Jun Di Fashion Design Company Limited*#^	The PRC	HK$8,350,000	—	58%	Dormant

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16. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary /registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Greater China Mining Resources Limited	Hong Kong/The PRC	HK$1	—	100%	Investment holding
Billion Trade International Enterprise Limited	Hong Kong	HK$1	—	100%	Dormant
Shaanxi Tai Sheng Da Mining Company Limited*#@	The PRC	RMB21,000,000	—	95%	Dormant
Ocean Yield International Limited	Hong Kong	HK$1	—	100%	Money lending
Aile Company Limited (formerly "Golden Joint Victory Ltd")	Hong Kong	HK$1	—	100%	Provision of design and related services and sales of designers' products
Alibellus Plus Limited	Hong Kong	HK$1	—	63%	Provision of design and related services and sales of designers' products
Infinite Chance Limited	Hong Kong	HK$1	—	100%	Dormant

* Ascenda Cachet CPA Limited were not the statutory auditors

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

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

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

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 the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

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17. EXPLORATION AND EVALUATION ASSETS

	Group	
	2011	2010
	HK$'000	*HK$'000*
At 1 January 2011, at cost	**1,698,481**	—
Additions through acquisition of subsidiaries	**—**	1,698,102
Additions during the year	**813**	—
Exchange realignment	**535**	379
Impairment during the year	**(160,829)**	—
At 31 December 2011	**1,539,000**	1,698,481

In 2010, the Group, has obtained a mining licence expiring on 22 September 2014 of 陝西省紫陽縣桃園 — 大柞木溝鈦磁鐵礦 (the "Mine", literally translated as Shannxi Province Ziyang Country Taoyuan – DazoumugouTaicitie Mine), an iron and titanium dioxide mine with a total mining area of 7.8892 km^2 located at Ziyang Country, Shaanxi Province, the PRC. However, the Group has to obtain other licences to commence/continue the operations on the Mine.

The exploration and evaluation assets are stated at cost less impairment losses. When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to property, plant and equipment and amortised on the units of production method (the "UOP") based on the proved and probable reserves.

During the year ended 31 December 2011, the Group incurred an amount of approximately HK$813,000 in relation to topography survey and feasibility study and which was capitalised as exploration and evaluation asset. The Group has not carried out any development nor production activity during the year. None of the exploration and evaluation costs were transferred to the property, plant and equipment as the directors of the Company are of the opinion that the exploration properties were not capable of commercial production at the end of the reporting period.

The net cash outflows arising from the Mine are as follows:

	2011	2010
	HK$'000	*HK$'000*
Operating activities	**(2,665)**	(1,656)
Investing activities	**(813)**	—
	(3,478)	(1,656)

The application for the PRC approval of the Mine is still in progress and the Group did not have any operation during the year ended 31 December 2011. The directors decided to postpone the mining plan and they expected that the Group will obtain all the required licences and approvals (the "Approvals") by the end of year 2013. Construction of facilities will start upon receiving the Approvals including but not limited to (i) the acquisition of land; (ii) construction of the mining factories; (iii) acquisition and construction of mining machineries/infrastructure; and (iv) production testing. The construction is divided into 3 stages and will take about 24 to 36 months to finish. Pilot production will commence after the first stage of construction work. The Group engaged an independent valuer, Lofty Appraisal Limited, to assess the fair value of the exploration and evaluation assets. The fair value of the exploration and evaluation assets as at 31 December 2011 was approximately HK$1,539,000,000 based on the income approach. Accordingly, an impairment loss of approximately HK$160,829,000 on the exploration and evaluation assets was charged to the consolidated income statement for the year ended 31 December 2011.

18. INTANGIBLE ASSET

	Group Computer software HK$'000
31 December 2011	
Additions during the year	**4,000**
Amortisation provided during the year	**(200)**
At 31 December 2011, net of accumulated amortisation	**3,800**
At 31 December 2011	
Cost	**4,000**
Accumulated amortisation	**(200)**
Net carrying value	**3,800**

Intangible asset represents computer software acquired from an independent third party during the year. The computer software, with a useful life of 5 years, is used for developing database of customer list in the fashion business segment.

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2011 **HK$'000**	2010 HK$'000
Club membership, at cost	**590**	590

20. DEFERRED TAX

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

Group

	Deductible temporary differences	
	2011 **HK$'000**	2010 HK$'000
At 1 January	**—**	—
Deferred tax credited to the income statement during the year *(note 10)*	**40,207**	—
At 31 December	**40,207**	—

NOTES TO FINANCIAL STATEMENT

31 December 2011

21. INVENTORIES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Raw materials	**82**	—
Work in progress	**357**	—
Finished goods	**7**	—
	446	—

22. LOAN RECEIVABLES

The Group's loans receivable arose from the money lending business during the year.

Loan receivables bear interest at rates and with credit periods mutually agreed between the contracting parties. Each customer has a credit limit. The Group maintains strict control over its outstanding loan receivables. Loan receivables are secured by the pledge of debtors' assets or personal guarantees by certain individuals. Overdue balances are reviewed regularly and handled closely by senior management.

	Group
	2011
	HK$'000
Loan receivables	**20,974**

The loan receivables at the end of the reporting period are analysed by the remaining period to contractual maturity date as follows:

	Group
	2011
	HK$'000
Repayable:	
Within 3 months	**8,459**
3 months to 1 year	**12,515**
	20,974

As at 31 December 2011, the above loan receivables were neither past due nor impaired.

NOTES TO FINANCIAL STATEMENT

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23. TRADE AND BILLS RECEIVABLES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Trade and bills receivables	**1,255**	2,190
Impairment	**—**	(754)
	1,255	1,436

Trading of garments and accessories are with credit terms of 30 to 90 days. The Group has a defined credit policy and it varies with the financial strength of individual customers. Trading of garments and accessories are mostly covered by letter of credits. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
Current	**1,177**	1,319
31-60 days	**40**	31
61-90 days	**37**	14
Over 90 days	**1**	72
	1,255	1,436

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**754**	6,259
Impairment losses recognised	**—**	269
Impairment losses written back	**(58)**	(919)
Written off of impairment losses trade and bills receivables	**(696)**	(1,096)
Disposal of subsidiaries	**—**	(3,759)
At 31 December	**—**	754

NOTES TO FINANCIAL STATEMENT

31 December 2011

23. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of approximately HK$ nil (2010: $754,000) with a carrying amount before provision of approximately HK$ nil (2010: $754,000).

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
Neither past due nor impaired	**1,177**	1,303
Less than 1 month past due	**40**	23
1 to 3 months past due	**38**	22
Over 3 months past due	**—**	88
	1,255	1,436

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, and the directors have performed an assessment, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

24. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other receivables	**5,602**	2,034	**120**	146
Impairment	**(764)**	(1,328)	**—**	—
	4,838	706	**120**	146
Prepayments and deposits	**3,822**	1,180	**517**	667
Deposit paid for the acquisition of a subsidiary *(note a)*	**80,000**	—	**—**	—
	88,660	1,886	**637**	813
Classified as non-current asset *(note a)*	**(80,000)**	—	**—**	—
Current portion	**8,660**	1,886	**637**	813

NOTES TO FINANCIAL STATEMENT

31 December 2011

24. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS *(CONTINUED)*

Note:

(a) On 8 September 2011, the Company and its indirectly wholly-owned subsidiary, Sky Treasure Worldwide Limited ("Sky Treasure"), entered into an agreement with an independent third party (the "Vendor") for the acquisition of the entire issued share capital of m3 Technology Development Limited ("m3") at a consideration of HK$398 million. The consideration shall be settled by cash of HK$120 million, convertible bonds of HK$50 million and promissory note of HK$228 million. During the year, a deposit of HK$80 million was paid by the Group to the Vendor. As at 31 December 2011, the Group has capital commitment in relation to the acquisition of m3 of HK$318 million. The transaction has not yet been completed up to the date of approval of these financial statements.

Subsequent to the end of reporting period, on 26 March 2012, a supplementary agreement was entered into between the Group and the Vendor, pursuant to which, each of the parties agrees that, in respect of the cash payment in the amount of HK$40,000,000 to be made at acquisition date, the Group shall instead issue a promissory note in the amount of HK$40,000,000 in favour of the Vendor.

The movements in provision for impairment of other receivables are as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**1,328**	1,288
Impairment losses recognised	**724**	40
Amount written off as uncollectible	**(1,288)**	—
At 31 December	**764**	1,328

Included in the above provision for impairment of the Group's other receivables is a provision for individually impaired other receivables of HK$764,000 (2010: HK$1,288,000) with a carrying amount before provision of HK$920,000 (2010: HK$1,288,000).

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Neither past due nor impaired	**4,683**	528	**120**	146
More than 3 months past due	**919**	178	**—**	—
	5,602	706	**120**	146

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

Receivables that were past due but not impaired related to a number of debtors that have a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group did not hold any collateral or other credit enhancements over these balances.

NOTES TO FINANCIAL STATEMENT

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25. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	HK$'000	*HK$'000*
Listed equity investments, at market value:		
Hong Kong	**29,038**	2,989

The above equity investments at 31 December 2010 and 2011 were classified as held for trading and classified as financial assets as at fair value through profit or loss.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**35,979**	135,217	**6,626**	117,187
Time deposits	**6,003**	3,433	**—**	—
	41,982	138,650	**6,626**	117,187
Less: Pledged time deposits for banking facilities	**(6,003)**	(1,873)	**—**	—
Cash and cash equivalents	**35,979**	136,777	**6,626**	117,187

At 31 December 2011, approximately HK$756,000 (2010: HK$3,854,000) of the Group's cash and bank balances were denominated in Renminbi, which 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.

27. BANK BORROWINGS

	Group	
	2011	2010
	HK$'000	*HK$'000*
Bank overdrafts, secured	**267**	1,033
Trust receipt loans, secured	**—**	441
Total bank borrowings — repayable within one year	**267**	1,474

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27. BANK BORROWINGS *(CONTINUED)*

The bank borrowings bore annual interest at 5.25%.

The Group's bank borrowings are denominated in Hong Kong dollars.

At 31 December 2011, the Group's trade finance facilities amounting to HK$59,000,000 (2010: HK$85,000,000) granted by the banks were secured by the following:

(a) guarantees given by the non-controlling shareholders of subsidiaries for HK$50,000,000 (2010: HK$ 69,610,000).

(b) charges over bank deposits of the Group of HK$6,003,000 (2010: HK$1,873,000) (note 26); and

(c) personal guarantees of HK$59,000,000 (2010: HK$67,840,000) and HK$31,950,000 (2010: HK$23,000,000) given by two former directors of the Company.

28. TRADE PAYABLES

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
Current	**—**	966
31-60 days	**932**	3
Over 90 days	**—**	5,836
	932	6,805

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

29. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**22,920**	24,708	**266**	30
Receipt in advance	**333**	—	**—**	—
Accruals	**4,172**	3,992	**3,261**	3,864
	27,425	28,700	**3,527**	3,894

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31 December 2011

29. OTHER PAYABLES AND ACCRUALS *(CONTINUED)*

Other payables are unsecured, non-interest-bearing and have an average terms of three months, except for a loan from an ex-director, Fung Man Chun, of HK$22,794,000 (2010: HK$22,794,000) which has no fixed terms of repayment.

30. CONVERTIBLE BONDS

On 30 March 2010, the Company issued 2% convertible bonds with an aggregate nominal value of HK$1,680,000,000. The maturity date of the convertible bonds is on 30 March 2013. The bonds are convertible into ordinary shares on or before the third anniversary from the issue date of the convertible bonds at the initial conversion price of HK$0.22 per share, subject to adjustment for dilutive events. The bonds carry interest at a rate of 2% per annum, which is payable annually in arrears on 30 March. Up to 31 December 2010, the convertible bonds with nominal value of HK$823,200,000 have been converted, at a conversion price of HK$0.22 and HK0.044 (as adjusted) per share, into 850,000,000 and 14,459,090,908 ordinary shares, respectively, of HK$0.01 each. The Company had early redeemed part of the convertible bonds of HK$170,000,000 before the maturity date during the year ended 31 December 2010. The outstanding principal amounts of the convertible bonds as at 31 December 2010 was HK$686,800,000

During the year ended 31 December 2011, the Company has early redeemed part of the convertible bonds with principal amount of HK$320,000,000 before the maturity date. The outstanding principal amounts of the convertible bonds as at 31 December 2011 was HK$366,800,000 at the adjusted conversion price HK$40.34 per share.

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

	Group and Company
	Liability Component
	HK$'000
Issue of convertible bonds in 2010	1,164,499
Conversion into shares during 2010	(587,455)
Redemption during 2010	(117,836)
Interest expense	75,364
Interest paid upon redemption	(2,465)
As 31 December 2010 and 1 January 2011	532,107
Interest expense	58,024
Interest paid	(12,169)
Redemption during 2011	(263,458)
Interest paid upon redemption	(2,904)
At 31 December 2011	311,600

Subsequent to the end of reporting period and up to the date of approval of these financial statements, there was no redemption or conversion of the convertible bonds.

31. SHARE CAPITAL

Authorised:

	No. of shares	*HK$'000*
As at 1 January 2010 (HK$0.05 each)	5,000,000,000	250,000
Increase in authorised capital *(note a)*	25,000,000,000	1,250,000
As at 3 May 2010 before share sub-division (HK$0.05 each)	30,000,000,000	1,500,000
Share sub-division on 4 May 2010 *(note c)*	120,000,000,000	—
As at 1 September 2010 before capital reorganisation (HK$0.01 each)	150,000,000,000	1,500,000
Share Reorganisation 1 *(note g)*	1,350,000,000,000	—
As at 31 December 2010 and 1 January 2011 (HK$0.001 each)	1,500,000,000,000	1,500,000
Share consolidation on 8 March 2011 *(note k)*	(1,425,000,000,000)	—
As at 6 October 2011 before capital reorganisation (HK$0.02 each)	75,000,000,000	1,500,000
Share Reorganisation 2 on 7 October 2011 *(note n)*	1,425,000,000,000	—
As at 31 December 2011 (HK$0.001 each)	1,500,000,000,000	1,500,000

Issued and fully paid:

	No. of shares	*HK$'000*
As at 1 January 2010 (HK$0.05 each)	384,349,468	19,217
Issue of shares upon conversion of convertible bonds *(note b)*	850,000,000	42,500
As at 3 May 2010 before share sub-division (HK$0.05 each)	1,234,349,468	61,717
Share subdivision on 4 May 2010 *(note c)*	4,937,397,872	—
Issue of shares upon conversion of convertible bonds *(note d)*	14,459,090,908	144,591
Issue of shares upon exercise of share options *(note e)*	8,000,000	80
Issue of new shares through placement *(note f)*	2,057,767,649	20,577
As at 1 September 2010 before share reorganisation (HK$0.01 each)	22,696,605,897	226,965
Share reorganisation on 2 September *(note g)*	(22,242,673,780)	(226,512)
Issue of new shares through placement *(note h)*	90,786,423	91
Issue of rights shares *(note i)*	4,357,748,320	4,358
As at 31 December 2010 and 1 January 2011 (HK$0.001 each)	4,902,466,860	4,902
Issue of new shares through placement *(note j)*	980,000,000	980
As at 7 March 2011 before share consolidation (HK$0.001 each)	5,882,466,860	5,882
Share consolidation on 8 March 2011 *(note k)*	(5,588,343,517)	—
Issue of new shares through placement *(note l)*	58,000,000	1,160
Issue of rights shares *(note m)*	7,746,713,546	154,936
As at 6 October 2011 before share reorganisation (HK$0.02 each)	8,098,836,889	161,978
Share Reorganisation 2 on 7 October 2011 *(note n)*	(7,693,895,045)	(161,573)
As at 31 December 2011 (HK$0.001 each)	404,941,844	405

NOTES TO FINANCIAL STATEMENT

31 December 2011

31. SHARE CAPITAL *(CONTINUED)*

Notes:

Movements during the year ended 31 December 2010:

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

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

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

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

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

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

(g) Share Reorganisation 1 — Pursuant to a special resolution passed on 1 September 2010, the Company undertook capital reorganisation ("Share Reorganisation 1"). Pursuant to the Share Reorganisation 1, on 2 September 2010, every 50 authorised, issued and unissued shares of HK$0.01 each in the share capital of the Company was consolidated into 1 share of HK$0.5 each (the "Consolidated Share 1") and subsequent to the share consolidation, the par value of each Consolidated Share 1 was reduced from HK$0.01 each to HK$0.001 each ("Capital Reduction 1"). Under the Capital Reduction 1, the issued share capital of the Company was reduced through a cancellation of the paid-up capital of the Company to the extent of HK$0.499 on each Consolidated Share 1, resulting in the reduction of issued share capital from HK$226,965,000 divided into 453,932,117 Consolidated Shares 1 to HK$453,932 divided into 453,932,117 shares of HK0.001 each. The credit amount arising from Capital Reduction 1 was transferred to the contributed surplus account of the Company.

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

31. SHARE CAPITAL *(CONTINUED)*

Notes: (continued)

Movements during the year ended 31 December 2010: *(continued)*

(i) On 21 December 2010, the Company issued rights shares on the basis of 8 rights shares for every 1 existing share held on 26 November 2010, at the subscription price of HK$0.05 per rights share with nominal value of HK$0.001 each, resulting in net proceeds of approximately HK$218 million, which would be used for working capital for the existing businesses of the Group, including but not limited to mining business.

Movements during the year ended 31 December 2011:

(j) On 28 January 2011, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a fully underwritten basis, a total of 980,000,000 placing shares to not less than 6 independent placees at a price of HK$0.0245 per placing share. The aggregate nominal value of the placing shares under the placing agreement was approximately HK$980,000. The net proceeds from the placement of approximately HK$23 million would be used for general working capital of the Group.

(k) Pursuant to a special resolution passed on 8 March 2011, every 20 issued and unissued shares of HK$0.001 each in the share capital of the Company was consolidated into 1 consolidated share of HK$0.02 each.

(l) On 31 March 2011, the Company entered into another placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a fully underwritten basis, a total of 58,000,000 placing shares to not less than 6 independent placees at a price of HK$0.25 per placing share. The aggregate nominal value of the placing shares under the placing agreement was approximately HK$1,160,000. The net proceeds from the placement of approximately HK$13.9 million would be used for general working capital of the Group.

(m) On 25 July 2011, the Company issued rights shares on the basis of 22 rights shares for every 1 existing share held on 28 June 2011, at the subscription price of HK$0.05 per rights share with nominal value of HK$0.02 each, resulting in net proceeds of approximately HK$374 million, which would be used for (i) the repayment of the outstanding convertible bonds; (ii) funding general working capital of the Group; and (iii) financing any future investment opportunities, if arise.

(n) Pursuant to a special resolution passed on 7 October 2011, the Group undertook the following share reorganisation (Share Reorganisation 2):

    (i) Share Consolidation — every 20 authorised, issued and unissued shares of HK$0.02 each in the share capital of the Company was consolidated (the "Share Consolidation") into 1 share of HK$0.4 each (the "Consolidated Share 2")

NOTES TO FINANCIAL STATEMENT

31 December 2011

31. SHARE CAPITAL *(CONTINUED)*

Notes: (continued)

Movements during the year ended 31 December 2011: *(continued)*

(n) Pursuant to a special resolution passed on 7 October 2011, the Group undertook Share Reorganisation 2 *(continued)*:

(ii) Capital Reduction — subsequent to the Share Consolidation, the par value of each Consolidated Share 2 was reduced from HK$0.02 each to HK$0.001 each ("Capital Reduction 2"). Under the Capital Reduction 2, the issued share capital of the Company was reduced through a cancellation of the paid-up capital to the extent of HK$0.399 on each Consolidated Share 2, resulting in the reduction of issued share capital from HK$161,976,738, divided into 8,098,836,889 Consolidated Shares 2, to HK$404,942, divided into 404,941,844 shares of HK$0.01 each. The nominal value of each Consolidated Share 2 was reduced from HK$0.04 to HK$0.001 ("New Share"). As a result, the authorised share capital was reduced from HK$1,500,000,000 divided into 3,750,000,000 Consolidated Shares 2 of HK$0.4 each to HK$3,750,000 divided into 3,750,000,000 New Shares of HK$0.001 each. The credit amount arising from Capital Reduction 2 was transferred to the contributed surplus account of the Company.

(iii) Increase in authorised share capital – the authorised share capital was increased from HK$3,750,000, divided into 3,750,000,000 New Shares of HK$0.001 each, to HK$1,500,000,000, divided into 1,500,000,000,000 New Shares of HK$0.001 each, by the creation of an additional 1,496,250,000,000 shares of HK$0.001 each.

After the above Share Reorganisation 2, the Company's issued share capital was reduced from HK$161,976,738, divided into 8,098,836,889 shares of HK$0.02 each, to HK$404,942, divided into 404,941,844 shares of HK$0.001 each.

32. RESERVES

(a) Group

(i) Share premium

The share premium account is available for distribution to shareholders under the Companies Act 1881 of Bermuda (as amended) and no distribution may be paid to shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

32. RESERVES *(CONTINUED)*

(a) Group *(continued)*

(ii) Statutory surplus reserve

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

(iii) Capital reserves

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

(iv) Contributed surplus

The contributed surplus of the Group as at 31 December 2010 and 2011 represented the credit amount arising from the Capital Reduction 1 on 2 September 2010 (note 31(g)) and Capital Reduction 2 (note 31(n)(ii)) on 7 October 2011. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment, be unable to pay its liabilities as they become due; (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

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32. RESERVES *(CONTINUED)*

(b) Company

	Share premium HK$'000 (note 32(a)(i))	Contributed surplus HK$'000	Employee share option reserves HK$'000	Equity component of convertible bonds HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	71,148	123,754	1,736	—	(162,292)	34,346
Issue of convertible bonds	—	—	—	515,501	—	515,501
Equity-settled share-options arrangements	—	—	909	—	—	909
Issue of shares upon conversion of convertible bonds	649,837	—	—	(252,596)	—	397,241
Redemption of convertible bonds	—	—	—	(52,164)	—	(52,164)
Issue of shares upon exercise of share options	96	—	(64)	—	—	32
Issue of shares through placement	24,875	—	—	—	—	24,875
Capital reduction	—	226,512	—	—	—	226,512
Issue of rights shares	213,530	—	—	—	—	213,530
Share options lapsed	—	—	(128)	—	128	—
Total comprehensive income for the year	—	—	—	—	(82,511)	(82,511)
At 31 December 2010 And at 1 January 2011	959,486	350,266	2,453	210,741	(244,675)	1,278,271
Redemption of convertible bonds	—	—	—	(98,190)	41,647	(56,543)
Equity-settled share-options arrangements	—	—	800	—	—	800
Issue of shares through placement	34,795	—	—	—	—	34,795
Capital reduction *(note 31(n))*	—	161,572	—	—	—	161,572
Issue of rights shares *(note 31(m))*	218,963	—	—	—	—	218,963
Total comprehensive income for the year	—	—	—	—	(245,908)	(245,908)
At 31 December 2011	1,213,244	511,838	3,253	112,551	(448,936)	1,391,950

32. RESERVES *(CONTINUED)*

Contributed surplus

Contributed surplus of the Company comprised:

(a) credit amount arising from the Capital Reduction 1 of HK$226,512,000 on 2 September 2010 (note 31(g)) and Capital Reduction 2 of HK$161,572,000 on 7 October 2011 (note 31(n)(ii)); and

(b) an amount of HK$123,754,000 representing the difference between the underlying net assets of the subsidiaries acquired by the Company and the nominal value of the shares issued by the Company at the time of the group reorganisation.

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

33. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

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

NOTES TO FINANCIAL STATEMENT

31 December 2011

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

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

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme but the Company may refresh the scheme mandate limit, by the approval of its shareholders in general meeting and the issue of a circular in accordance with the requirements of the Listing Rules, such that the total number of shares in respect of which options may granted by the Directors under the 2002 Share Option Scheme and any other schemes of the Company shall not exceed 10% of the issued share capital of the Company at the date of approval to refresh such limit. Options previously granted under the 2002 Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised) will not be counted for the purpose of calculation limited as "refreshed". Notwithstanding the aforesaid in this paragraph, the maximum number of shares in respect of which options may be granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. As at 31 December 2011, the total number of shares available for issue under the 2002 Share Option Scheme was 1,760,616 (2010: 27,675,851) shares, which represented approximately 0.6% of the issued share capital of the Company at that day. The maximum number of shares issued and to be issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in any 12-month period up to the date of grant of the options, would not exceed 1% of the aggregate number of shares in issue unless the grant of such options is specifically approved by the shareholders of the Company in general meeting and a circular is issued in accordance with the requirements of the Listing Rules.

The subscription price will be determined by the Company's Board of Directors, and will be the highest of (1) the closing price of the ordinary shares as stated in daily quotation sheet issued by the Stock Exchange on the date of grant, which must be a trading day, (2) the average closing price of the ordinary shares as stated in daily quotation sheet issued by the Stock Exchange for the five trading days immediately preceding the date of grant, and (3) the nominal value of an ordinary share.

NOTES TO FINANCIAL STATEMENT

31 December 2011

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

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

At 31 December 2011, a total of 234,115 (as adjusted) (2010: 15,555,600) share options were still outstanding under the 2002 Share Option Scheme as follows:

	Exercise Grant date	At 1 January 2011	Adjusted upon the share re-organisation as at 7 March 2011	Adjusted upon rights issue as at 25 July 2011	Adjusted upon the share reorg-anisation as at 7 October 2011	At 31 December 2011	Exercise period	Exercise price per share
								HK$
Executive director								
Mr. Yiu Kwok Ming, Tommy	26.9.2006	2,880,000	(2,736,000) *(note 1)*	722,899 *(note 1)*	(823,555) *(note 1)*	43,344	30.11.2007-25.9.2016	5.18 *(note 1)*
	11.6.2008	3,457,800	(3,284,910) *(note 2)*	867,931 *(note 2)*	(988,780) *(note 2)*	52,041	11.6.2008-10.6.2018	36.94 *(note 2)*
Sub-total		6,337,800	(6,020,910)	1,590,830	(1,812,335)	95,385		
Other eligible employees	26.9.2006	5,760,000	(5,472,000) *(note 1)*	1,445,799 *(note 1)*	(1,647,110) *(note 1)*	86,689	30.11.2007-25.9.2016	5.18 *(note 1)*
	11.6.2008	3,457,800	(3,284,910) *(note 2)*	867,931 *(note 2)*	(988,780) *(note 2)*	52,041	11.6.2008-10.6.2018	36.94 *(note 2)*
		15,555,600	(14,777,820)	3,904,560	(4,448,225)	234,115		

Notes:

(1) The number and the exercise price of share options which remained outstanding have been adjusted due to share consolidation, rights issue and share reorganisation of the Company with effect from 8 March 2011, 25 July 2011 and 7 October 2011, respectively (note 31(k)&31(m)&31(n)). The exercise price per share was adjusted from HK$0.078 to HK$5.18.

(2) The number and the exercise price of share options which remained outstanding have been adjusted due to share consolidation, rights issue and share reorganisation of the Company with effect from 8 March 2011, 25 July 2011 and 7 October 2011, respectively (note 31(k)&31(m)&31(n)). The exercise price per share was adjusted from HK$0.556 to HK$36.94.

NOTES TO FINANCIAL STATEMENT

31 December 2011

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

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

Employee share option expenses of HK$800,000 (2010: HK$909,000) related to the above grants of share options are charged to the consolidated income statement over the vesting period. Such expenses were determined by the Company based on the Black-Scholes Valuation model with the following assumptions:

	11 June 2008
Value per option	$0.42
Price per share at date of grant	$0.50
Exercise price per share	$0.50
Standard deviation	1.1971
Annual risk-free interest rate	3.41%
Life of options	10 years
Vesting period	4 years

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

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

At the end of the reporting period, the Company had 234,115 (as adjusted) share options outstanding under 2002 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 234,115 additional ordinary shares of the Company and additional share capital of HK$234.

Subsequent to 31 December 2011, there was no exercise of share options under the 2002 Share Option Scheme.

34. ACQUISITION OF SUBSIDIARIES

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

The acquisition of Greater China Group was not accounted for as a business combination in the Group's consolidated financial statements for the year ended 31 December 2010 as the acquisition of the assets and liabilities of Greater China Group did not constitute a business. Therefore, the Acquisition effectively represents an acquisition of assets by the Group. Accordingly, the consideration of the Acquisition was allocated between the individual identifiable assets and liabilities of Greater China Group.

	2010 *HK$'000*
Property, plant and equipment	7
Exploration and evaluation assets	1,698,102
Cash and cash equivalent	553
Prepayments	5,158
Other receivables	130
Other payables	(22,808)
Net assets of Greater China Group	1,681,142
Non-controlling interests of Shaanxi Tai Sheng Da Mining Company Limited	(1,142)
Net assets of Greater China Group attributable to the owners of the company	1,680,000
Satisfied by:	
Convertible bonds	1,680,000

NOTES TO FINANCIAL STATEMENT

31 December 2011

35. DISPOSAL OF SUBSIDIARIES

On 2 September 2010, the Group entered into a sales and purchase agreement with Cotton Row Limited to dispose of Zhongshan Ching Hing together with several subsidiaries of the Group, which were principally engaged in the sales of fabrics and/or garments in the PRC and Hong Kong, at a consideration of HK$45.8 million.

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

35. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

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

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

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

Save as transactions disclosed in notes 30, 34 and 35 to the financial statements, the Group had no other major non-cash transactions during the years ended 31 December 2010 and 2011.

37. COMMITMENTS

(a) Operating lease commitments

As lessee

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

At 31 December 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land buildings as follows:

	2011 ***HK$'000***	2010 *HK$'000*
Within one year:	**2,600**	2,236
In the second to fifth years inclusive	**781**	4,360
	3,381	6,596

NOTES TO FINANCIAL STATEMENT

31 December 2011

37. COMMITMENTS *(CONTINUED)*

(b) Other commitments

As detailed in note 24(a) above, as at 31 December 2011, the Group had a commitment in relation to the acquisition of m3 of HK$318 million.

(c) Capital commitments

In addition to the above, the Group had the following capital commitments at the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Purchase of property, plant and equipment	**75**	—
Authorised, but not contracted for:		
— Construction cost for the mining infrastructure	**475,495**	405,100

38. RELATED PARTY TRANSACTIONS

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

	2011	2010
	HK$'000	*HK$'000*
Purchase from a related company *(note (v))*	**90**	—
Rental paid to a related company *(note (i))*	**—**	700
Interest paid to a shareholder of a related company *(note (ii))*	**—**	284
Interest paid to a director of the Company *(note (iii))*	**—**	80
Interest paid to a related company *(note (iv))*	**5**	409
Management fee paid to a related company *(note (v))*	**900**	220
Commission income received from a related company *(note(v))*	**(48)**	—

NOTES TO FINANCIAL STATEMENT

31 December 2011

38. RELATED PARTY TRANSACTIONS *(CONTINUED)*

Note:

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

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

(iii) The director is Mr. Yiu Kwok Ming, Tommy who was re-designated as non-executive director on 3 January 2012.

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

(v) As detailed in note(iii) above, Mr. Yiu Kwok Ming, Tommy, an executive director of the Company at the end of reporting period, is also a director of Ching Hing Weaving Dyeing and Printing Factory Limited, the related company. This transaction was conducted in accordance with the terms agreed between the Group and the related company.

(b) Members of key management during the year comprised only seven (2010: seven) executive directors whose remuneration is set out in note 9 to the financial statements.

39. EVENTS AFTER THE REPORTING PERIOD

(i) On 7 March 2012, the Company has entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place through the placing agent, on a fully underwritten basis, a total of 80,980,000 placing shares to not less than six placees at a price of HK$0.20 per placing share. The placing of shares, with net proceeds of approximately HK$16 million, was completed on 20 March 2012.

(ii) On 8 September 2011, the Company and its indirectly wholly-owned subsidiary, Sky Treasure Worldwide Limited ("Sky Treasure"), entered into an agreement with an independent third party (as the "Vendor") for the acquisition of the entire issued share capital of m3 Technology Development Limited ("m3") at a consideration of HK$398 million. The consideration shall be settled by cash of HK$120 million, convertible bonds of HK$50 million and promissory note of HK$228 million. During the year, a deposit of HK$80 million was paid by the Group to the Vendor.

As at 31 December 2011, the Group has capital commitment in relation to the acquisition of m3 of HK$318 million. The transaction has not yet been completed up to the date of approval of these financial statements.

Subsequent to the end of reporting period, on 26 March 2012, a supplementary agreement was entered into between the Group and the Vendor, pursuant to which, each of the parties agrees that, in respect of the cash payment in the amount of HK$40 million to be made at acquisition date, the Group shall instead issue a promissory note in the amount of HK$40 million in favour of the Vendor.

(iii) Pursuant to the announcement dated 5 January 2012, the proceeds from the rights issue set aside for the Group's iron and titanium mine exploitation business in the sum of approximately HK$34.72 million are not expected to be used in the near future since the Group will not be able to obtain all the relevant licences and approvals for commencement of production for the Group's iron and titanium mine exploitation business until 2013. The Directors have therefore resolved to change the use of the said sum and apply it for the development of money lending business of the Group to generate extra income.

NOTES TO FINANCIAL STATEMENT

31 December 2011

40. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

31 December 2011
Financial assets

	Financial assets at fair value through profit or loss-held for trading HK$'000	Loan and receivables HK$'000	Available -for-sale financial assets HK$'000	Total HK$'000
Available-for-sale financial investment	—	—	590	590
Loan receivables	—	20,974	—	20,974
Trade and bills receivables	—	1,255	—	1,255
Financial assets included in other receivables, prepayments and deposits	—	6,205	—	6,205
Equity investments at fair value through profit or loss	29,038	—	—	29,038
Pledged bank deposits	—	6,003	—	6,003
Cash and cash equivalents	—	35,979	—	35,979
	29,038	70,416	590	100,044

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Bank overdraft, secured	267
Trade payables	932
Financial liabilities included in other payables and accruals	27,425
Liability component of convertible bonds	311,600
	340,224

40. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

Group *(continued)*

31 December 2010
Financial assets

	Financial assets at fair value through profit or loss-held for trading *HK$'000*	Loan and receivables *HK$'000*	Available -for-sale financial assets *HK$'000*	Total *HK$'000*
Available-for-sale financial investment	—	—	590	590
Trade and bills receivables	—	1,436	—	1,436
Financial assets included in other receivables, prepayments and deposits	—	1,886	—	1,886
Equity investments at fair value through profit or loss	2,989	—	—	2,989
Pledged bank deposits	—	1,873	—	1,873
Cash and cash equivalents	—	136,777	—	136,777
	2,989	141,972	590	145,551

Financial liabilities

	Financial liabilities At amortised cost *HK$'000*
Bank overdraft, secured	1,033
Trust receipt loans, secured	441
Trade payables	6,805
Financial liabilities included in other payables and accruals	28,700
Liability component of convertible bonds	532,107
	569,086

NOTES TO FINANCIAL STATEMENT

31 December 2011

40. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

Company

Financial assets

	2011 Loans and receivables HK$'000	2010 Loans and receivables HK$'000
Financial assets included in other receivables, prepayments and deposits	120	813
Cash and cash equivalents	6,626	117,187
	6,746	118,000

Financial liabilities

	2011 Financial liabilities at amortised cost HK$'000	2010 Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables and accruals	3,527	3,894
Liability component of convertible bonds	311,600	532,107
	315,127	536,001

41. FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value of financial instruments

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

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

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

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

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

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value 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 all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value

Group

As at 31 December 2011

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Equity investments at fair value through profit or loss	**29,038**	**—**	**—**	**29,038**

As at 31 December 2010

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

The Company did not have any financial assets measured at fair value at 31 December 2011 (2010: Nil).

Liabilities measured at fair value

The Group and the Company did not have any financial liabilities measured at fair value at 31 December 2011 (2010: Nil).

NOTES TO FINANCIAL STATEMENT

31 December 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest rate risk

The Group does not have any significant exposure to the risk of changes in market interest rates, and therefore it does not use derivative financial instruments to hedge its debt obligations.

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in Renminbi ("RMB"), United States Dollars ("USD") and Hong Kong dollar ("HKD"). Approximately 96.6% (2010: 76.3%) of the Group's sales are denominated in currencies other than the functional currency of the operating units marking the sales, and almost 100% (2010: 97.4%) of costs are denominated in currencies other than the units' functional currency.

The Group does not have significant foreign currency risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in USD and HKD, of which the exchange rate of USD was quite stable during the year ended 31 December 2010 and 2011.

NOTES TO FINANCIAL STATEMENT

31 December 2011

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

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

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
31 December 2011			
If HKD weakens against RMB	**5%**	**177**	**—**
If HKD strengthens against RMB	**(5%)**	**(177)**	**—**
If HKD weakens against USD	**5%**	**31**	**—**
If HKD strengthens against USD	**(5%)**	**(31)**	**—**
31 December 2010			
If HKD weakens against RMB	5%	1,150	—
If HKD strengthens against RMB	(5%)	(1,150)	—
If HKD weakens against USD	5%	(214)	
If HKD strengthens against USD	(5%)	214	—

* Excluding retained earnings/accumulated losses

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. The Group reviews the recoverables amount of each individual debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged time deposits, equity investments at fair value through profit or loss, loan and trade receivables, available-for-sale investment and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customers bases of the Group's trade receivables are widely dispersed in different sectors and industries.

NOTES TO FINANCIAL STATEMENT

31 December 2011

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

Liquidity risk

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

	On demand or no fixed terms of repayment *HK$'000*	Less than 3 months *HK$'000*	1 to 5 years *HK$'000*	Total *HK$'000*
2011				
Bank overdrafts, secured	**267**	**—**	**—**	**267**
Trade payables	**—**	**932**	**—**	**932**
Other payables and accruals	**27,062**	**363**	**—**	**27,425**
Convertible bonds	**—**	**6,232**	**305,368**	**311,600**
	27,329	**7,527**	**305,368**	**340,224**
2010				
Bank overdrafts, secured	1,033	—	—	1,033
Trust receipt loans, secured	—	441	—	441
Trade payables	—	6,805	—	6,805
Other payables and accruals	22,794	5,906	—	28,700
Convertible bonds	—	10,642	521,465	532,107
	23,827	23,794	521,465	569,086

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

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as equity investments at fair value through profit or loss (note 25) as at 31 December 2011. The Group's listed investments are listed in Hong Kong and are valued at quoted market prices at the end of the reporting period.

The following table demonstrates the sensitivity to every 5% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments *HK$'000*	**Change in the Group's loss before tax** *HK$'000*	**Change in the Group's equity*** *HK$'000*
2011			
Investments listed in:			
Hong Kong — equity investments at fair value through profit or loss	**29,038**	**1,452**	**—**

	Carrying amount of equity investments *HK$'000*	Change in the Group's loss before tax *HK$'000*	Change in the Group's equity* *HK$'000*
2010			
Investments listed in:			
Hong Kong — equity investments fair value through profit or loss	2,989	150	—

* Excluding accumulated losses

NOTES TO FINANCIAL STATEMENT

31 December 2011

42. 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 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes bank overdrafts, trust receipt loans, trade payables, other payables and accruals, less pledged bank deposits and cash and cash equivalents. Capital includes equity attributable to owners of the Company and liability component of convertible bonds.

	2011 *HK$*	2010 *HK$*
The gearing ratios as at the end of reporting periods were as follows:		
Bank overdrafts, secured	**267**	1,033
Trust receipt loans, secured	**—**	441
Trade payables	**932**	6,805
Other payables and accruals	**27,425**	28,700
Less:		
Pledged bank deposits	**(6,003)**	(1,873)
Cash and cash equivalents	**(35,979)**	(136,777)
Net debt	**(13,358)**	(101,671)
Liability component of convertible bonds	**311,600**	532,107
Equity attributable to owners of the Company	**1,429,023**	1,272,026
Total capital	**1,740,623**	1,804,133
Total capital and net debt	**1,727,265**	1,702,462
Gearing ratio	**N/A**	N/A

43. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation. As explained in note 13 to the financial statement, the basic loss per share for the year ended 31 December 2010 has been adjusted to reflect the share consolidations and right issues during the year ended 31 December 2011.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2012.

FIVE YEAR 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/reclassified as appropriate, is set out below. The amounts for each year in the five year financial summary have been re-presented if the operation discontinued during the previous year had been discontinued at the beginning of the prior years.

	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Continuing operations					
Revenue	**25,711**	198,062	220,320	287,021	257,532
(Loss)/profit before tax	**(243,198)**	(76,462)	(7,341)	(24,862)	7,118
Income tax credit/(expense)	**39,521**	(585)	(540)	(2,135)	(1,230)
(Loss)/profit for the year from continuing operations	**(203,677)**	(77,047)	(7,881)	(26,997)	5,888
Discontinued operation					
Loss for the year from discontinued operation	**—**	(995)	(4,081)	(16,315)	(12,758)
(Loss)/profit for the year	**(203,677)**	(78,042)	(11,962)	(43,312)	(6,870)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**1,768,847**	1,844,917	132,597	149,468	204,514
Total liabilities	**(342,182)**	(570,354)	(78,663)	(84,857)	(116,093)
Non-controlling interests	**(2,358)**	2,537	(4,768)	(3,631)	(2,781)