KINGWELL GROUP LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

*Stock Code : 1195*

# 2012 ANNUAL REPORT

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# Corporate Information

## DIRECTORS

Hui Lung Hing *(Chairman)*
Xiang Song *(Chief Executive Officer)*
Sze Ming Yee
Lin Wan Xin
Xu Yue Yue
Yang Xue Jun
Huang Jian Zi*
Cheung Chuen*
Wong Lai Wing*

* Independent Non-executive Director

## COMPANY SECRETARY

Poon Yan Wai

## AUTHORISED REPRESENTATIVES

Xiang Song
Poon Yan Wai

## AUDIT COMMITTEE

Huang Jian Zi *(Chairman)*
Cheung Chuen
Wong Lai Wing

## REMUNERATION COMMITTEE

Huang Jian Zi *(Chairman)*
Xu Yue Yue
Cheung Chuen

## NOMINATION COMMITTEE

Hui Lung Hing *(Chairman)*
Huang Jian Zi
Wong Lai Wing

## CORPORATE GOVERNANCE COMMITTEE

Wong Lai Wing *(Chairman)*
Huang Jian Zi
Cheung Chuen

## LEGAL ADVISER FOR CAYMAN ISLANDS LAW

Conyers Dill & Pearman

## AUDITOR

Ernst & Young

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 314–315
Wing On Plaza
62 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman
KY1-1107
Cayman Islands

## HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

## TRADING CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

1195

## WEBSITE

http://kingwell.todayir.com

# Financial Results

- Revenue for the Year decreased to approximately RMB280.0 million.
- Gross profit for the Year was approximately RMB12.4 million.
- Loss before tax for the Year was approximately RMB168.1 million.
- Loss attributable to ordinary equity holders of the Company for the Year was approximately RMB204.6 million.
- Loss per share was approximately RMB14 cents.
- Total equity decreased to RMB154.1 million.

# Chairman's Statement

Dear Shareholders,

On behalf of the board of directors of Kingwell Group Limited ("Kingwell" or the "Company"), I am presenting the financial report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2012 (the "Year").

During the Year, the intense competition in the electronics industry and unfavourable operating environment continued to pose great challenges to the electronics industry as well as the Group. The demand for electronic products recovered at a slow pace. Customers were still cautious in placing orders which added to the downward pressure of average selling prices. Furthermore, the growing inflation in China led to rising raw material and labour costs, which increased production costs and undermined the profitability of the Group.

In order to sustain the continuous growth of the Group and meet the coming challenges, the Group had successfully entered into the property development business through its property development project in Anlu City, Hubei province in the People's Republic of China (the "PRC"). The real estate project, comprising various types of properties including villas, houses, apartments, residential buildings and commercial buildings, had made significant contribution to the Group during the Year.

In the future, the Group will continue to implement its diversified development strategy and proactively search for potential investment opportunities, particularly in the gold mining projects, with reference to the Company's announcements made on 22 May 2012, 4 July 2012, 5 July 2012 and 15 August 2012, the Group had completed the acquisition of 51% equity interest in a gold mining company in the Russian Federation. The acquisition provided the Group with a unique opportunity to purchase the gold mine and enabled the Group to enter into the gold mining industry. Also, the Group will continue to explore gold mining business for its long-term development.

Finally, I would like to express my greatest gratitude to the board of directors (the "Board"), management and staff of the Group for their strenuous contribution in the past year. Furthermore, I would also like to take this opportunity to sincerely thank our customers, suppliers, business partners and shareholders for their continuous support and trust. I believe all members of the Group will dedicate their best effort to drive business growth and to deliver enhanced returns to shareholders.

**Hui Lung Hing**
*Chairman*

Hong Kong, 21 September 2012

# Management Discussion and Analysis

## RESULTS

For the Year, revenue of the Group decreased by 21.0% to RMB279,987,000 (2011: RMB354,577,000). The decrease in revenue was mainly due to the decrease in the revenue from the electronic business.

During the Year, the Group recorded a gross profit of RMB12,396,000 (2011: gross profit of RMB30,847,000) and loss before tax of RMB168,067,000 (2011: loss before tax of RMB166,535,000) respectively. The decrease in gross profit and increase in loss before tax were mainly due to the slow recovery in sales and rise in production costs in electronic business.

The loss attributable to equity shareholders of the Company (the "Shareholders") for the Year was RMB204,591,000 (2011: loss of RMB229,653,000). Basic loss per share was RMB14 cents (2011: basic loss per share was RMB15 cents).

## BUSINESS REVIEW

### Electronic Business

The Group is principally engaged in the electronic business. Its products have a broad range of applications in items such as mobile communication devices, consumer digital devices, automotive and medical devices.

During the Year, unfavourable market condition in the global economy continued to pose various challenges to the electronics industry. Both the Group's orders and average selling prices were under pressure and amid intense market competition.

Rigid printed circuit boards ("RPCBs") continued to remain as the Group's core business. Being one of the largest producers in Fujian and leveraging on its strong client base, the Group continued to receive stable orders from existing clients and maintained its market share in the region. However, owing to the uncertain market conditions, average selling prices have not yet rebounded to previous levels.

During the Year, revenue attributable from electronic business was RMB181,152,000 (2011: RMB250,134,000) representing 64.7% of the Group's total revenue. The electronic business recorded a loss of RMB150,731,000, as compared to a loss of RMB108,685,000 in last year.

### Property Development Business

The residential development project "Anlu Taihe Paradise" at Liang Ji Bei Road, Anlu Economic Development District in Anlu city, Hubei province in the PRC is wholly owned by the Group and is having positive contribution to the Group. The project comprises three phases, with a total gross floor area of approximately 272,568 square meters. The project marked the successful entry by the Group into the property development business and provided strong support in achieving the strategy of business diversification and generating new sources of income in order to improve the Group results during the Year.

# Management Discussion and Analysis (Continued)

During the Year, revenue attributable from property development business was RMB98,835,000 (2011: RMB104,443,000), representing 35.3% of the Group's total revenue. The property development business recorded a profit of RMB22,506,000, as compared to a profit of RMB15,581,000 in last year.

### Geographic Information

Geographically, sales within the PRC (excluding Hong Kong and Taiwan) remained the largest segment, generating 88.2% (2011: 83.1%) of the Group's revenue. The balance of 11.8% of the Group's revenue (2011: 16.9%) was taken up by the overseas customers.

## PROSPECTS

Looking forward, the intense competition in the electronics industry and unfavourable operating environment will continue to pose challenges to the electronics industry as well as the Group. The demand for electronic products recovered at a slow pace. Customers were still cautious in placing orders which added to the downward pressure of average selling prices. Furthermore, the growing inflation in China led to rising raw material and labour costs, which increased production costs and undermined the profitability of the Group.

In order to sustain the continuous growth of the Group and meet the coming challenges, the Group had successfully entered into the property development business through its property development project in Anlu City, Hubei province in the PRC. The real estate project, comprising various types of properties including villas, houses, apartments, residential buildings and commercial buildings, had made significant contribution to the Group during the Year.

Looking ahead, the Group will continue to implement its diversified development strategy and proactively search for potential investment opportunities, particularly in gold mining projects, with reference to the Company's announcements made on 22 May 2012, 4 July 2012, 5 July 2012 and 15 August 2012, the Group had completed the acquisition of 51% equity interest in a gold mining company in the Russian Federation. The acquisition provided the Group with a unique opportunity to purchase the gold mine and enabled the Group to enter into the gold mining industry. Also, the Group will continue to explore gold mining business for its long-term development.

## LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For the year ended 30 June 2012, the Group's working capital requirement was principally financed by its internal resources, banking facilities and other financial instruments.

As at 30 June 2012, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of RMB147,332,000 (2011: RMB400,298,000), RMB170,826,000 (2011: RMB204,546,000) and RMB240,449,000 (2011: RMB413,219,000) respectively.

# Management Discussion and Analysis (Continued)

As at 30 June 2012, the Group had total bank borrowings of RMB114,358,000 (2011: RMB257,000,000). Included in these utilised bank loans, RMB99,358,000 was short term and RMB15,000,000 was long term. All of the utilised bank loans were secured by interest in leasehold land and buildings of subsidiaries.

As at 30 June 2012, the Group had other interest-bearing borrowings of RMB52,039,000 (2011: RMB66,000,000), which were unsecured and repayable within two years.

The total bank borrowings of the Group were mainly for business expansion, capital expenditure and working capital purposes and were mainly denominated in Renminbi.

Total equity attributable to equity shareholders of the Company as at 30 June 2012 decreased by RMB202,909,000 to RMB154,132,000 (2011: RMB357,041,000). The gearing ratio (calculated as the ratio of net debt: adjusted capital and net debt) of the Group as at 30 June 2012 was 52% (2011: 31%).

On 10 February 2012, the Company completed the issue of 100,000,000 warrants to three independent investors. The issue price is HK$0.01 per warrant and the subscription price is HK$0.29 per new share. The net proceeds were for general working capital.

## SIGNIFICANT INVESTMENTS

Save as disclosed elsewhere under the section headed "Management Discussion and Analysis", the Group held no other significant investment during the Year.

## ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATION COMPANIES

On 28 December 2011, the Company disposed its equity interest in Winrise International Limited and its subsidiary (collectively, the "Winrise Group") to an independent third party. The Winrise Group is engaged in the provision of surface mounting technology processing services. The disposal of the Winrise Group was completed on 31 December 2011. The above transaction was less than 5% size tests and was not subject to the notification, publication and shareholders' approval requirements according to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

On 18 January 2012, the Company disposed its equity interest in Herowin Limited and its subsidiary (collectively, the "Herowin Group") to an independent third party. The Herowin Group is not yet commenced operation. The disposal of the Herowin Group was completed on 31 January 2012. The above transaction was less than 5% size tests and was not subject to the notification, publication and shareholders' approval requirements according to the Listing Rules.

On 28 June 2012, the Company disposed its equity interest in Tempest Trading Limited and its subsidiary (collectively, the "Tempest Group") to an independent third party. The Tempest Group is engaged in manufacture of flexible printed circuit boards. The disposal of the Tempest Group was completed on 30 June 2012. Since the above transaction was more than 5% but less than 25% size tests, the disposal constituted a discloseable transaction under Chapter 14 of the Listing Rules and was subject to the reporting and announcement requirements. Details of the discloseable transaction has been published on the Company's announcement dated 28 June 2012.

# Management Discussion and Analysis (Continued)

Save as disclosed above, the Group had no other material acquisition and disposal of subsidiaries and affiliated companies during the Year.

## EMPLOYEE INFORMATION

As at 30 June 2012, the Group employed a total of 549 (2011: 1,286) employees. It is a policy of the Group to review its employees' pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industry. During the Year, the employment cost (including Directors' emoluments) amounted to approximately RMB71,274,000. In order to align the interests of staff, directors and consultants with the Group, share options may be granted to staff, directors and consultants under the Company's 2010 share options scheme. There were 149,436,000 share options outstanding under the 2010 Scheme as at 30 June 2012.

## CHARGES ON GROUP ASSETS

As at 30 June 2012, certain interests in leasehold land and buildings with a net carrying amount of RMB32,483,000 (2011: RMB134,604,000) were pledged to secure general banking facilities granted to the Group.

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

In the future, the Group will continue to implement its diversified development strategy and proactively search for potential investment opportunities, particularly in the gold mining projects, with reference to the Company's announcements made on 22 May 2012, 4 July 2012, 5 July 2012 and 15 August 2012, the Group had completed the acquisition of 51% equity interest in a gold mining company in the Russian Federation. The Group will be financed by internal cash resources, bank loan and the issue of the convertible note.

Save as disclosed above, the Group had no future plans for material investments as at 30 June 2012.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group has foreign currency risk as certain financial assets and liabilities are denominated in foreign currencies, principally in United States dollars and Hong Kong dollars. The Group does not expect any appreciation or depreciation of the Renminbi against foreign currency which might materially affects the Group's result of operations. The Group did not employ any financial instruments for hedging purposes.

# Management Discussion and Analysis (Continued)

## CAPITAL COMMITMENTS

As at 30 June 2012, in respect of capital expenditure, the Group had capital commitments that were authorised, but not contracted for the acquisition of equity investment amounting to RMB82,000,000.

## CONTINGENT LIABILITIES

As at 30 June 2012, the banking facilities granted to disposed subsidiaries subject to guarantees given to banks by the Group were utilised to the extent of RMB36,000,000 (2011: Nil).

# Biographical Information of Directors and Senior Management

## DIRECTORS

### Executive Directors

Mr. Hui Lung Hing (許隆興), aged 59, is an Executive Director and Chairman of the Company. He holds a bachelor's degree in Philosophy from the Huazhong Normal University. Mr. Hui is a businessman in Hong Kong and the PRC and has more than 32 years' experience in corporate management, sale and development of properties and investments. Mr. Hui was appointed as an Executive Director on 2 July 2010 and Chairman of the Company on 1 January 2012. Mr. Hui is currently the chairman of Truroll Investment Limited, a private company engaged in diversified business. Mr. Hui is a director and the former controlling shareholder of Stephigh Group Limited, and a director of Rise Win Group Limited and Rising Ray China Group Limited, all of which are wholly owned subsidiaries of the Company.

Mr. Xiang Song (項松), aged 41, is an Executive Director and the Chief Executive Officer of the Company. Mr. Xiang graduated with a bachelor's degree in mechanical engineering from the University of Science and Technology of Beijing (北京科技大學) in 1993. Prior to joining the Group in July 1998, Mr. Xiang had gained substantial management experience when he served as the plant general manager and engineer of Guangzhou Printronics Circuit Corp. (廣州普林電路公司). He has more than 17 years of management experience in the electronic industry. Mr. Xiang was appointed as an Executive Director in September 2000 and he is principally responsible for the supervision of the Group's technology, production and quality control.

Mr. Sze Ming Yee (施明義), aged 47, is an Executive Director of the Company. He has more than 17 years' experience in property development and investment and is currently engaged in property development primarily in the PRC and primarily in Wenzhou. He also invests in securities in the PRC. He is a postgraduate student of Zhejiang University. Mr. Sze joined the Group on 15 January 2010 and is a director of Union Day Group Limited, the substantial shareholder of the Company.

Mr. Lin Wan Xin (林萬新), aged 58, is an Executive Director of the Company. He is also a director of Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary of the Company. He graduated from Fujian Normal University (福建師範大學) and has gained extensive administration experience as the production director, administration director and vice-president of the general administration department of Fujian Normal University (福建師範大學). Mr. Lin is currently a member of the 11th and 12th Political Consultative Standing Committee of Fuqing City in Fujian Province and a council member of the Printed Circuit Industry Association respectively. He joined the Group in March 1998 and was one of the founding members. On 28 October 2008, he has been appointed as the Chairman of the Company but resigned the post on 15 January 2010.

Ms. Xu Yue Yue (許月悅), aged 34, is an Executive Director of the Company. She has over 8 years' experience in the electronics industry (mainly manufacture of central processing units of computers), and is the chief executive officer of a central processing unit manufacturing company in Shenzhen, PRC. Ms. Xu graduated from the Economics and Management Cadre College, Hubei Province (湖北省經濟管理幹部學院). Ms. Xu is a director of Union Day Group Limited, the substantial shareholder of the Company. On January 2010, she has been appointed as the Acting Chairman of the Company but resigned the post on 1 January 2012.

# Biographical Information of Directors and Senior Management (Continued)

Mr. Yang Xue Jun (楊學軍), aged 48, is an Executive Director of the Company. He holds a bachelor's degree in Marine Meteorology from the Ocean University of China and is a postgraduate student of Financial Management of the La Trobe University of Australia. Mr. Yang, with over 22 years' experience in marketing and promotion and strategic planning, had held various senior executive positions with firms in the PRC. Mr. Yang was appointed as an Executive Director on 2 July 2010 and was a consultant of the Company prior to joining the Group.

### Independent Non-executive Directors

Mr. Huang Jian Zi (黃健子), aged 32, is an Independent Non-executive Director of the Company. He is the lecturer of Life Science College of Shenzhen University (深圳大學生命科學學院) since 2008. Mr. Huang obtained a doctorate degree in Botany and a bachelor's degree in Biochemistry from the Sun Yat-Sen University in 2007 and 2002 respectively. Mr. Huang was appointed as an Independent Non-executive Director on 7 December 2010.

Mr. Cheung Chuen (張全), aged 38, is an Independent Non-executive Director of the Company. He is a certified public accountant practicing in the United States of America and Hong Kong. Mr. Cheung graduated from Hong Kong Shue Yan University in 1999 with majoring in accounting and obtained a master degree in professional accounting from the Hong Kong Polytechnic University in 2004. He is a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over the years gained extensive experience in accounting and auditing. He has been appointed as an Independent Non-executive Director of the Company since September 2004. Mr. Cheung currently is an executive director and independent non-executive director of China High Precision Automation Group Limited and Anxin-China Holdings Limited, respectively which both are listed companies in Hong Kong.

Ms. Wong Lai Wing (王麗榮), aged 54, is an Independent Non-executive Director of the Company. She is the deputy general manager of China Tonghe Economic Development Corporation since 2004. She was the general manager of Sunnry Oceania Pty. Ltd., Australia from 1999 to 2004. She was the deputy general manager in Hong Kong Jinmaoshiye Company Ltd. (香港金茂實業公司), from 1993 to 1999, responsible for domestic trading business. She worked as the deputy general manager of Beijing Xingmao Enterprises Corporation (北京興茂實業公司) from 1987 to 1990. Ms. Wong also worked as an assistant researcher for China National People's Congress from 1985 to 1986. Ms. Wong has working experience in both the government and the private sector within PRC and abroad, and is very experienced in business management. Ms. Wong graduated from the English Faculty of Wuhan Jianghan University in 1981, and gained a MA degree of International Relations from the Monash University in Australia in 1992. Ms. Wong was appointed as an Independent Non-executive Director on 15 January 2010.

## SENIOR MANAGEMENT

Mr. Poon Yan Wai (潘仁偉), aged 42, is the Company Secretary and an Authorised Representative of the Company. Mr. Poon is a Fellow Member of The Hong Kong Institute of Certified Public Accountants. He also holds a Bachelor's degree in Accountancy and Master's degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Poon's remuneration is including in note 9.

# Corporate Governance Report

The Group is committed to statutory and regulatory corporate governance standards and adherence to the principles of corporate governance emphasising accountability, transparency, independence, fairness and responsibility.

The Group has complied with the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the Year:

## A. SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code of Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiries of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the Year.

## B. BOARD OF DIRECTORS

### 1. Composition of the Board of Directors

As at 30 June 2012, the Board consisted of six Executive Directors, namely Mr. Hui Lung Hing, Mr. Xiang Song, Mr. Sze Ming Yee, Mr. Lin Wan Xin, Ms. Xu Yue Yue and Mr. Yang Xue Jun, and three Independent Non-executive Directors, namely Mr. Huang Jian Zi, Mr. Cheung Chuen and Ms. Wong Lai Wing. Each of the Directors' respective biographical details are set out in the section headed "Biographical Information of Directors and Senior Management" of this annual report.

The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. To the best knowledge of the Company, save as disclosed in the section headed "Biographical Information of Directors and Senior Management" of this annual report, there is no financial, business, family or other material/relevant relationship among members of the Board (including the Chairman and the Chief Executive Officer).

# Corporate Governance Report (Continued)

## 2. Functions of the Board of Directors

The Board is responsible for the oversight of the Company's business and affairs with the objective of enhancing Shareholders value. The Board also makes decisions on matters such as approving the annual results and interim results, notifiable and connected transactions, appointment and re-appointment of directors, declaring dividends and adopting accounting policies, etc.. Details of the experience and qualifications of Directors are set out in the section headed "Biographical Information of Directors and Senior Management" of this annual report.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's businesses to the Executive Directors and the management. When the Board delegates aspects of its management and administration functions to the management, it has given clear directions as to the powers of the management, in particular, with respect to the circumstances where the management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

## 3. Board Meetings and Board Practices

During the Year, the Board conducted 14 meetings and the Board will meet on other occasions when a board level decision on a particulars matter is required. The attendance records of those meetings held are set out below:

| Directors' Attendance at Board Meetings | No. of attendance |
|---|---|
| **Executive Directors** | |
| Mr. Hui Lung Hing *(appointed as Chairman on 1 January 2012)* | 13/14 |
| Mr. Xiang Song *(Chief Executive Officer)* | 4/14 |
| Mr. Sze Ming Yee | 5/14 |
| Mr. Lin Wan Xin | 3/14 |
| Ms. Xu Yue Yue *(resigned as Acting Chairman on 1 January 2012)* | 10/14 |
| Mr. Yang Xue Jun | 12/14 |
| **Independent Non-executive Directors** | |
| Mr. Huang Jian Zi | 9/14 |
| Mr. Cheung Chuen | 2/14 |
| Ms. Wong Lai Wing | 8/14 |

The Directors will receive details of agenda items for decision and minutes of the meetings in advance of each Board meeting. The Company Secretary is responsible for distributing detailed documents to Directors prior to the Board meetings to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing to the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

# Corporate Governance Report (Continued)

## 4. General Meeting

During the Year, the Company convened 1 general meeting on 21 December 2011 which was the annual general meeting of the Company.

| Director's Attendance at General Meeting | No. of attendance |
|---|---|
| **Executive Directors** | |
| Mr. Hui Lung Hing *(appointed as Chairman on 1 January 2012)* | 0/1 |
| Mr. Xiang Song *(Chief Executive Officer)* | 0/1 |
| Mr. Sze Ming Yee | 0/1 |
| Mr. Lin Wan Xin | 0/1 |
| Ms. Xu Yue Yue *(resigned as Acting Chairman on 1 January 2012)* | 1/1 |
| Mr. Yang Xue Jun | 1/1 |
| **Independent Non-executive Directors** | |
| Mr. Huang Jian Zi | 1/1 |
| Mr. Cheung Chuen | 1/1 |
| Ms. Wong Lai Wing | 0/1 |

## 5. Directors' Training

According to the code provision A.6.5 of the CG Code, all directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors of the Company.

During the Year and up to the date of this report, the Company had arranged to provide to all Directors with the "Guidelines for Directors" and the "Guide for Independent Non-executive Directors" issued by the Hong Kong Institute of Directors. Each of the Directors had noted and studied the above mentioned documents and that the Company had received from each of the Directors the confirmations on taking continuous professional training.

## 6. Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, there are three Independent Non-executive Directors representing one-third of the Board. Among the three Independent Non-executive Directors, one of them has appropriate professional qualifications in accounting or relevant financial management expertise as required by Rule 3.10(2) of the Listing Rules.

The Independent Non-executive Directors bring independent judgment on issues of strategy, performance and risk. The Company has received from each of the Independent Non-executive Directors written confirmations of their independence pursuant to Rule 3.13 of the Listing Rules. Based upon the said confirmations, the Board considers that all the Independent Non-executive Directors are independent.

# Corporate Governance Report (Continued)

### 7. Chairman and Chief Executive Officer

The role of the Chairman and Chief Executive Officer are performed by Mr. Hui Lung Hing and Mr. Xiang Song respectively. This segregation ensures a clear distinction between the Chairman's and the Chief Executive Officer's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability.

### 8. Appointment, Re-election and Removal of Directors

According to the articles of association of the Company, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years.

According to the code provision A.4.1 of the CG Code, Non-executive Directors should be appointed for a specific term of service. Mr. Cheung Chuen, Ms. Wong Lai Wing and Mr. Huang Jian Zi were appointed as Independent Non-executive Directors on 30 September 2004, 15 January 2010 and 7 December 2010, and their appointment letters have been renewed with the Company for a term of one year commencing from 1 January 2013, 1 January 2013 and 1 December 2012 respectively. According to their terms of service, Mr. Cheung Chuen, Mr. Huang Jian Zi and Ms. Wong Lai Wing are subject to retirement by rotation and offer themselves for re-election in accordance with the articles of association of the Company.

## C. BOARD COMMITTEES

### 1. Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") in November 2005 with written terms of reference no less exacting terms than the CG Code. The Remuneration Committee is responsible for advising the Board on the remuneration policy and framework of the Directors and senior management, as well as reviewing and having delegated responsibility to determine the remuneration packages of individual executive directors and senior management, including benefits in kinds, pension rights and compensation payments, with reference to the Company's objectives from time to time.

# Corporate Governance Report (Continued)

As at 30 June 2012, the Remuneration Committee consisted of three members, comprising one Executive Director, Ms. Xu Yue Yue, and two Independent Non-executive Directors, Mr. Huang Jian Zi and Mr. Cheung Chuen. Mr. Huang Jian Zi is the chairman of the Remuneration Committee. During the Year, two meetings were held to review the remuneration packages of the Board and the senior management. The attendance records of the Remuneration Committee meetings held are set out below:

| Directors' Attendance at Remuneration Committee Meetings | No. of attendance |
|---|---|
| Mr. Huang Jian Zi *(Chairman of the Remuneration Committee)* | 2/2 |
| Ms. Xu Yue Yue | 2/2 |
| Mr. Cheung Chuen | 2/2 |

## 2. Audit Committee

The Company established an audit committee (the "Audit Committee") in May 2001 with written terms of reference revised to be substantially the same as the provisions as set out in the CG Code. The Audit Committee acts as an important link between the Board and the Company's auditors in matters within the scope of the Group's audit. The duties of the Audit Committee are to review and discuss on the effectiveness of the external audit and risk evaluation of the Company, as well as the Company's annual report and accounts, interim reports and to provide advice and comments to the Board. The Audit Committee is also responsible for reviewing and supervising the Group's financial reporting and internal control. The Audit Committee has reviewed the annual results of the Group for the year ended 30 June 2012.

As at 30 June 2012, the Audit Committee consisted of three members and they are all the Independent Non-executive Directors, namely Mr. Huang Jian Zi, Mr. Cheung Chuen and Ms. Wong Lai Wing. Mr. Huang Jian Zi is the chairman of the Audit Committee. During the Year, two meetings were held to review the consolidated financial statements for the Year and the unaudited consolidated financial statements for the six months ended 31 December 2011 with the recommendations to the Board for approval; and to review the accounting principals and policies adopted by the Group and its system of internal control. The attendance records of the Audit Committee meetings held are set out below:

| Directors' Attendance at Audit Committee Meetings | No. of attendance |
|---|---|
| Mr. Huang Jian Zi *(Chairman of the Audit Committee)* | 2/2 |
| Mr. Cheung Chuen | 2/2 |
| Ms. Wong Lai Wing | 2/2 |

### 3. Nomination Committee

The Company established a nomination committee (the "Nomination Committee") on 26 March 2012 with written terms of reference no less exacting terms than the CG Code. The Nomination Committee is responsible for electing and recommending candidates for directorship, based on assessment of their professional qualifications and experience and is also responsible for assessing the independence of each Independent Non-executive Directors.

As at 30 June 2012, the Nomination Committee consisted of three members, comprising one Executive Director, Mr. Hui Lung Hing, and two Independent Non-executive Directors, Mr. Huang Jian Zi and Ms. Wong Lai Wing. Mr. Hui Lung Hing is the chairman of the Nomination Committee. During the Year, the Nomination Committee has assessed the Independent Non-executive Directors. The attendance record of the Nomination Committee meeting held is set out below:

| Directors' Attendance at Nomination Committee Meeting | No. of attendance |
|---|---|
| Mr. Hui Lung Hing *(Chairman of the Nomination Committee)* | 1/1 |
| Mr. Huang Jian Zi | 1/1 |
| Ms. Wong Lai Wing | 1/1 |

### 4. Corporate Governance Committee

The Company established a corporate governance committee (the "Corporate Governance Committee") on 26 March 2012 with written terms of reference no less exacting terms than the CG Code. The Corporate Governance Committee is responsible for developing and reviewing the Company's policies and practices on corporate governance.

As at 30 June 2012, the Corporate Governance Committee consisted of three members and they are Independent Non-executive Directors, Ms. Wong Lai Wing, Mr. Huang Jian Zi and Mr. Cheung Chuen. Ms. Wong Lai Wing is the chairman of the Corporate Governance Committee. During the Year, The Corporate Governance Committee had reviewed the corporate governance matters of the Company that the Company had complied with the principles and applicable code provisions of the CG Code and was not aware of any non-compliance to relevant applicable legal and regulatory requirements. The attendance record of the Corporate Governance Committee meeting held is set out below:

| Directors' Attendance at Corporate Governance Committee Meeting | No. of attendance |
|---|---|
| Ms. Wong Lai Wing *(Chairman of the Corporate Governance Committee)* | 1/1 |
| Mr. Huang Jian Zi | 1/1 |
| Mr. Cheung Chuen | 0/1 |

# Corporate Governance Report (Continued)

## D. ACCOUNTABILITY AND AUDIT

### 1. Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements. The Company's consolidated financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies have been adopted and applied consistently, and that judgments and estimates made are prudent and reasonable.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the consolidated financial statements.

### 2. Internal Controls

The Board had conducted a review of the effectiveness of the system of internal control of the Group covering all material controls, including financial, operation, compliance control, etc.. The Group's internal control system includes a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operation systems and achievement of the Group's objectives. The Board throughout the Group maintains and monitors the internal control systems on an ongoing basis.

### 3. Auditors' Remuneration

During the Year, the remuneration paid/payable to the Company's auditors, Ernst & Young, is set out as follows:

| Nature of Services | Fee paid/payable<br>RMB'000 |
|---|---|
| Audit services | 1,573 |
| Non-audit services | — |
| Total | 1,573 |

# Corporate Governance Report (Continued)

## E. COMPANY SECRETARY

Mr. Poon Yan Wai was appointed as the Financial Controller and Company Secretary of the Company. The biographical details of Mr. Poon are set out on page 11 under the section headed "Biographical Information of Directors and Senior Management". According to rule 3.29 of the Listing Rules, Mr. Poon will take no less than 15 hours of relevant professional training.

## F. SHAREHOLDERS' RIGHTS

### Convening an extraordinary general meeting

Pursuant to article 58 of the articles of association of the Company, any one or more members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Putting enquiries to the Board

To ensure effective communication between the Board and the Shareholders, the Company has adopted a shareholders' communication policy (the "Policy") on 26 March 2012. Under the Policy, the Company's information shall be communicated to the Shareholders mainly through general meetings, including annual general meetings, the Company's financial reports (interim reports and annual reports), and its corporate communications and other corporate publications on the Company's website and the Stock Exchange's website.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the Company Secretary at the Company's head office and principal place of business in Hong Kong or the Company's Hong Kong branch registrar and transfer office, Hong Kong Registrars Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

### Putting forward proposals at shareholders' meeting

The number of Shareholders necessary for a requisition for putting forward a proposal at a shareholders' meeting shall be any number of Shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the requisition.

# Corporate Governance Report (Continued)

A copy or copies of requisition signed by all requisitionists shall be deposited, with a sum reasonably sufficient to meet the Company's expenses in giving notice of the proposed resolution or circulating any necessary statement, at the Company's head office and principal place of business in Hong Kong in the case of:

(i) a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

(ii) any other requisition, not less than one week before the meeting.

The Company will verify the requisition and upon confirming that the requisition is proper and in order, the Board will proceed with necessary procedures.

## G. INVESTORS AND SHAREHOLDERS RELATIONS

The Company continues to pursue a proactive policy in promoting investors relations and communications with Shareholders. The Board also recognised that effective communication with investors is the key to establish investor confidence and to attract new investors.

The Company communicates with its shareholders and investors through the publication of annual and interim reports, press announcements and releases, also the Company's website at http://kingwell.todayir.com.

The annual general meeting of the Company also provides an important opportunity for constructive communication between the Board and Shareholders. The Chairman as well as the chairman of the audit and remuneration committees, or in their absence, members of the relevant committees are available to answer any questions raised by Shareholders.

The Group regularly releases corporate information, such as awards received, and the latest news of the Group's developments on the Company's website. The public are welcome to give their comments and make their enquiries through the Company's website, the management will give their prompt response thereto.

# Report of the Directors

The Directors submit herewith their annual report together with the audited consolidated financial statements for the Year.

## PRINCIPAL ACTIVITIES

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

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 4 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

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

| | Percentage of the Group's total | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 8% | |
| Five largest customers in aggregate | 26% | |
| The largest supplier | | 8% |
| Five largest suppliers in aggregate | | 29% |

At no time during the Year have 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 any interest in these major customers and suppliers.

## FINANCIAL STATEMENTS

The loss of the Group for the Year and the state of the Company's and the Group's affairs as at 30 June 2012 are set out in the financial statements on pages 35 to 115.

## DIVIDENDS

The Board does not recommend the payment of a final dividend for the Year (2011: Nil).

# Report of the Directors (Continued)

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 3 December 2012 to 7 December 2012, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 30 November 2012.

## SHARE CAPITAL

Details of movements in share capital of the Company during the Year are set out in note 28 to the financial statements. A total of 1,080,000 shares were issued during the Year due to the exercise of share options.

## TRANSFER TO RESERVES

Loss attributable to ordinary equity holders of the Company of RMB204,591,000 (2011: losses of RMB229,653,000) have been transferred to reserves.

## DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity and note 30 to the financial statements respectively.

As at 30 June 2012, the distributable reserves of the Company available for distribution to Shareholders amounted to RMB Nil (2011: RMB Nil), were computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium account, capital contribution reserve and capital reserve of approximately RMB375,795,000 (2011: RMB375,550,000), RMB48,448,000 (2011: RMB48,448,000), RMB19,000 (2011: RMB19,000) respectively, less accumulated losses and exchange fluctuation reserve of approximately RMB492,978,000 (2011: RMB484,891,000) and RMB22,090,000 (2011: RMB23,387,000), which are available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business of the Company.

## SUBSIDIARIES

Particulars of the Company's subsidiaries as at 30 June 2012 are set out in note 16 to the financial statements.

# Report of the Directors (Continued)

## PROPERTY, PLANT AND EQUIPMENT

During the Year, the Group recognised an impairment loss of RMB9,060,000 against the non-current assets.

Details of these and other movements in property, plant and equipment of the Group during the Year are set out in note 13 to the financial statements.

## BANKING FACILITIES

Particulars of the banking facilities of the Group as at 30 June 2012 are set out in note 25 to the financial statements.

## CHARITABLE DONATIONS

Charitable donations made by the Group during the Year amounted to RMB Nil (2011: RMB Nil).

## COMMITMENTS

Particulars of the commitments of the Group as at 30 June 2012 are set out in note 35 to the financial statements.

## SHARE OPTION SCHEME (2003)

At the extraordinary general meeting of the Company held on 9 January 2003, an ordinary resolution was passed to adopt a share option scheme (the "2003 Scheme").

### Summary of the 2003 Scheme

**(A) Purpose of the 2003 Scheme**

The purpose of the 2003 Scheme is to provide incentives and rewards to eligible participants (as defined hereinafter) who contribute to the success of the Group.

**(B) Participants of the 2003 Scheme**

Pursuant to the 2003 Scheme, the Board may offer eligible participants (being employees (whether full time or part time) or executives or officers of the Company or any of its subsidiaries (including executive and non-executive Directors of the Company or any of its subsidiaries) and business consultants, agents, legal or financial advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of its subsidiaries) ("Eligible Participants") options to subscribe for such number of shares in the Company.

# Report of the Directors (Continued)

**(C) Total number of shares available for issue under the 2003 Scheme**

The total number of shares which may be issued upon exercise of all options to be granted under the 2003 Scheme will be 40,262,500 shares, representing 10% of the shares in issue as at the adoption date on 9 January 2003. On 23 December 2005 and 22 December 2006, an ordinary resolution was passed at each of that annual general meeting to refresh the number of shares available for issue up to 10% of the shares in issue as at the resolution date, representing 46,762,500 and 55,316,900 shares respectively. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2003 Scheme must not in aggregate exceed 30% of the relevant shares of the Company in issue from time to time.

**(D) Maximum entitlement of each participant**

The maximum number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting.

**(E) Option period**

Option may be exercised after it has vested at any time during the year to be notified by the Board at the time of the grant of the option but shall be in any event not later than 10 years from the offer date, subject to the provisions for early termination of the 2003 Scheme.

**(F) Payment on acceptance of option**

Options granted must be taken up within 21 days from the offer date, upon payment of HK$1.00 per grant.

**(G) Basis of determining the subscription price**

The subscription price per share under the 2003 Scheme is determined by the Board, save that such price must not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer to grant option, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer to grant option; and (c) the nominal value of the share of the Company.

**(H) Remaining life of the 2003 Scheme**

The 2003 Scheme was terminated following the adoption of a new share option scheme on 11 February 2010.

# Report of the Directors (Continued)

## SHARE OPTION SCHEME (2010)

At the extraordinary general meeting of the Company held on 11 February 2010, an ordinary resolution was passed to adopt a share option scheme (the "2010 Scheme").

### Summary of the 2010 Scheme

**(A) Purpose of the 2010 Scheme**

The purpose of the 2010 Scheme is to provide incentives and rewards to Eligible Participants (as defined hereinafter) who contribute to the success of the Group.

**(B) Participants of the 2010 Scheme**

Pursuant to the 2010 Scheme, the Board may offer eligible participants (being employees (whether full time or part time) or executives or officers of the Company or any of its subsidiaries (including executive and non-executive Directors of the Company or any of its subsidiaries) and business consultants, agents, legal or financial advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of its subsidiaries) ("Eligible Participants") options to subscribe for such number of shares in the Company.

**(C) Total number of shares available for issue under the 2010 Scheme**

The initial total number of shares which may be issued upon exercise of all options to be granted under the 2010 Scheme will be 151,234,450 shares, representing 10% of the shares in issue as at the date of the 2010 annual general meeting. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2010 Scheme must not in aggregate exceed 30% of the relevant shares of the Company in issue from time to time.

As at 30 June 2012, a total of 1,080,000 options have been exercised under the 2010 Scheme. There is 149,436,000 options remained outstanding, representing approximately 9.87% of the total issued number of shares of the Company as at 30 June 2012.

**(D) Maximum entitlement of each participant**

The maximum number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of Shareholders in general meeting.

**(E) Option period**

An option may be exercised after it has vested at any time during the year to be notified by the Board at the time of the grant of the option but shall be in any event not later than 10 years from the offer date, subject to the provisions for early termination of the 2010 Scheme.

**(F) Payment on acceptance of option**

Options granted must be taken up within 7 days or such other period as the Board may decide from the offer date, upon payment of HK$1.00 per grant.

# Report of the Directors (Continued)

**(G) Basis of determining the subscription price**

The subscription price per share under the 2010 Scheme is determined by the Board, save that such price must not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer to grant option, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer to grant option; and (c) the nominal value of the share of the Company.

**(H) Remaining life of the 2010 Scheme**

The 2010 Scheme will remain valid until 10 February 2020.

## SHARE OPTIONS

The following table discloses movements in the Company's share options of the 2010 Scheme during the Year:

| Name or category of participant | Date of grants | Outstanding as at 1 July 2011 | Granted during the Year | Exercised during the Year | Cancelled/ lapsed during the Year | Outstanding as at 30 June 2012 | Exercise period | Exercise price HK$ | Market value per share at date of grant of options HK$ |
|---|---|---|---|---|---|---|---|---|---|
| (a) Directors | | | | | | | | | |
| Mr. Hui Lung Hing | 11 May 2011 | 13,000,000 | | | | 13,000,000 | 11 May 2011 to 10 May 2016 | 0.306 | 0.305 |
| Mr. Sze Ming Yee | 26 May 2010 | 2,000,000 | | | | 2,000,000 | 26 May 2010 to 25 May 2015 | 0.287 | 0.285 |
| Ms. Xu Yue Yue | 26 May 2010 | 10,000,000 | | | | 10,000,000 | 26 May 2010 to 25 May 2015 | 0.287 | 0.285 |
| Mr. Yang Xue Jun | 26 May 2010 | 10,500,000 | | | | 10,500,000 | 26 May 2010 to 25 May 2015 | 0.287 | 0.285 |
| (b) Eligible employees | 26 May 2010 | 8,000,000 | | | | 8,000,000 | 26 May 2010 to 25 May 2015 | 0.287 | 0.285 |
| | 11 May 2011 | 10,000,000 | | | | 10,000,000 | 11 May 2011 to 10 May 2016 | 0.306 | 0.305 |
| (c) Eligible consultants | 26 May 2010 | 43,816,000 | | 1,080,000 | | 42,736,000 | 26 May 2010 to 25 May 2015 | 0.287 | 0.285 |
| | 8 November 2010 | 31,200,000 | | | | 31,200,000 | 8 November 2010 to 7 November 2015 | 0.449 | 0.435 |
| | 11 May 2011 | 22,000,000 | | | | 22,000,000 | 11 May 2011 to 10 May 2016 | 0.306 | 0.305 |
| | | 150,516,000 | — | 1,080,000 | — | 149,436,000 | | | |

# Report of the Directors (Continued)

Information on the accounting policy for share options granted and the weighted average value per option is provided in notes 2.4 and 29 to the financial statements.

Apart from the foregoing, at no time during the Year was the Company, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## CONNECTED TRANSACTIONS

On 1 June 2010, the Group entered into a lease agreement with Truroll Investment Limited, of which Mr. Hui Lung Hing, a substantial shareholder and an Executive Director of the Company, is the Chairman. Pursuant to the agreement, the Group agreed to pay a monthly rental of HK$45,000 in respect of the Group's occupation of Units 314–315, Wing On Plaza, 62 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

In the opinion of the Independent Non-executive Directors of the Company, the rentals as referred to in the above lease agreements are based on normal commercial terms and has been conducted in the ordinary and usual course of business of the Group. This transactions constitute de minimus on-going connected transactions in accordance with Rule 14A.31 of the Listing Rules.

## DIRECTORS

The Directors during the Year and up to the date of this annual report are:

**Executive Directors**
Mr. Hui Lung Hing *(Chairman)*
Mr. Xiang Song *(Chief Executive Officer)*
Mr. Sze Ming Yee
Mr. Lin Wan Xin
Ms. Xu Yue Yue
Mr. Yang Xue Jun

**Independent Non-executive Directors**
Mr. Huang Jian Zi
Mr. Cheung Chuen
Ms. Wong Lai Wing

In accordance with article 87(1) of the Company's articles of association, Mr. Hui Lung Hing, Ms. Xu Yue Yue and Ms. Wong Lai Wing shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

# Report of the Directors (Continued)

## DIRECTORS' SERVICE AGREEMENTS

Mr. Xiang Song, an Executive Director, has entered into a service agreement with the Company for a term of three years, with a fixed term of one year, which shall be terminated by either party giving the other not less than six months prior written notice provided that such notice period shall not expire during the first 12 months of the said 3 years' term. The commencement date of the service agreement with Mr. Xiang Song is on 22 August 2011.

Mr. Lin Wan Xin, an Executive Director, has entered into a service agreement with the Company for a term of one year from the date of the commencement of the contract and his appointment will continue thereafter until terminated by six months' notice in writing served by either party on the other. The commencement date of the service agreement with Mr. Lin Wan Xin is on 24 October 2010.

Each of the Executive Directors appointed after 1 July 2009 listed below has entered into a service contract with the Company for a term of one year from the date of their appointments and their appointments will continue thereafter until terminated by six months' notice in writing served by either party on the other. The commencement dates of the agreements with each of the Executive Directors are as follows:

| | |
|---|---|
| Mr. Hui Lung Hing | 1 January 2012 |
| Mr. Sze Ming Yee | 1 January 2012 |
| Ms. Xu Yue Yue | 1 January 2012 |
| Mr. Yang Xue Jun | 1 January 2012 |

Mr. Cheung Chuen, Ms. Wong Lai Wing and Mr. Huang Jian Zi were appointed as Independent Non-executive Directors on 30 September 2004, 15 January 2010 and 7 December 2010 respectively which each of their appointment letters have been renewed with the Company for a term of one year commencing from 1 January 2013 and 1 January 2013 and 1 December 2012. According to their terms of service, Mr. Cheung Chuen, Ms. Wong Lai Wing and Mr. Huang Jian Zi are subject to retirement by rotation and offer themselves for reelection in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors has a service agreement with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

# Report of the Directors (Continued)

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

As at 30 June 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

### Long positions in the shares of the Company

| Name | Capacity | Number of shares | Number of issued ordinary shares held | Number of underlying shares held pursuant to share options | Total approximate % of the issued share capital |
|---|---|---|---|---|---|
| Mr. Sze Ming Yee | Interest held as beneficial owner and through controlled corporation | 347,778,539 | 345,778,539 (Note) | 2,000,000 | 22.97 |
| Mr. Hui Lung Hing | Beneficial owner | 263,000,000 | 250,000,000 | 13,000,000 | 17.37 |
| Mr. Yang Xue Jun | Beneficial owner | 10,500,000 | — | 10,500,000 | 0.69 |
| Ms. Xu Yue Yue | Beneficial owner | 10,000,000 | — | 10,000,000 | 0.66 |

Note: 345,778,539 shares are held by Union Day Group Limited (a company incorporated in the British Virgin Islands with limited liability) which is 72% beneficially owned by Mr. Sze Ming Yee.

Save as disclosed above, as at 30 June 2012, none of the Directors nor the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

# Report of the Directors (Continued)

## SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2012, according to the register of members kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following person/entity (other than the Directors or chief executives of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

### Long positions in the shares of the Company

| Name | Capacity | Number of shares | Number of issued ordinary shares held | Total approximate % of the issued share capital |
|---|---|---|---|---|
| Union Day Group Limited | Beneficial owner | 345,778,539 | 345,778,539 (Note 1) | 22.84 |
| Mr. Yin Jia Tang | Beneficial owner | 276,666,667 (Note 2) | — | 18.28 |
| Mr. Du Hua Wei | Beneficial owner | 82,142,857 | — | 5.43 |
| Mr. Zhang Jian | Beneficial owner | 82,142,857 | — | 5.43 |

Note 1: 345,778,539 shares are held by Union Day Group Limited (a company incorporated in the British Virgin Islands with limited liability) which is 72% beneficially owned by Mr. Sze Ming Yee.

Note 2: 83,000,000 convertible preferred shares are held by Mr. Yin Jia Tang which is convertible into 276,666,667 conversion shares at HK$0.30 per conversion share.

Save as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO as at 30 June 2012.

# Report of the Directors (Continued)

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the sections "Share option scheme", "Share options" and "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, at no time during the Year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTOR'S INTERESTS IN CONTRACTS

Save as disclosed in note 36 to the financial statements, there was no contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the Year.

## DIRECTOR'S INTERESTS IN COMPETING BUSINESS

None of the Directors or the management shareholders or the substantial shareholders of the Company, or any of their respective associates (as defined in the Listing Rules) had any material interest in a business that competes or may compete with the business of the Group.

## MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Year.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 116 of the annual report.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

# Report of the Directors (Continued)

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

## AUDIT COMMITTEE

The Company has established an Audit Committee since 8 May 2001 with written terms of reference and the duties of the Audit Committee include reviewing the Company's annual reports and interim reports and providing advice and comments to the Directors. The Audit Committee is also responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

As at the date of this annual report, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. Huang Jian Zi, Mr. Cheung Chuen and Ms. Wong Lai Wing. During the Year, the Audit Committee met twice to review the interim and annual results of the Group.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

## AUDITORS

Ernst & Young retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board
**KINGWELL GROUP LIMITED**

**Hui Lung Hing**
*Chairman*

Hong Kong, 21 September 2012

# Independent Auditors' Report

ERNST & YOUNG

**To the shareholders of Kingwell Group Limited**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Kingwell Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 35 to 115, which comprise the consolidated and company statements of financial position as at 30 June 2012, and 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, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

# Independent Auditors' Report (Continued)

## 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 30 June 2012, 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.

**Ernst & Young**
Certified Public Accountants

22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

21 September 2012

# Consolidated Statement of Comprehensive Income

Year ended 30 June 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| REVENUE | 5 | **279,987** | 354,577 |
| Cost of sales | | **(267,591)** | (323,730) |
| Gross profit | | **12,396** | 30,847 |
| Other income and gains | 5 | **6,934** | 4,716 |
| Selling and distribution costs | | **(28,746)** | (24,479) |
| Administrative expenses | | **(43,723)** | (59,757) |
| Other expenses | | **(95,541)** | (98,744) |
| Finance costs | 7 | **(19,387)** | (19,118) |
| LOSS BEFORE TAX | 6 | **(168,067)** | (166,535) |
| Income tax expense | 10 | **(36,524)** | (63,824) |
| LOSS FOR THE YEAR | | **(204,591)** | (230,359) |
| OTHER COMPREHENSIVE INCOME | | | |
| Exchange differences on translation of foreign operations | | **616** | 4,128 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | **616** | 4,128 |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | | **(203,975)** | (226,231) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 12 | | |
| Basic | | | |
| — For loss for the year | | **(14) cents** | (15) cents |
| Diluted | | | |
| — For loss for the year | | **(14) cents** | (15) cents |

# Consolidated Statement of Financial Position

30 June 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **64,611** | 161,799 |
| Investment properties | 14 | **1,800** | — |
| Prepaid land lease payments | 15 | **1,770** | 16,646 |
| Intangible assets | | **479** | 626 |
| Deferred tax assets | 27 | **963** | 29,602 |
| Total non-current assets | | **69,623** | 208,673 |
| CURRENT ASSETS | | | |
| Inventories | 17 | **225,402** | 237,836 |
| Trade and bills receivables | 18 | **34,485** | 72,804 |
| Prepayments, deposits and other receivables | 19 | **23,872** | 22,801 |
| Equity investments at fair value through profit or loss | 20 | **494** | 570 |
| Pledged deposits | 21 | **10,735** | 9,786 |
| Cash and cash equivalents | 21 | **147,332** | 400,298 |
| Total current assets | | **442,320** | 744,095 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 22 | **79,686** | 102,114 |
| Other payables and accruals | 23 | **80,512** | 139,116 |
| Due to a director | 24 | **582** | 2,267 |
| Interest-bearing bank and other borrowings | 25 | **103,597** | 290,000 |
| Tax payable | | **7,117** | 6,052 |
| Total current liabilities | | **271,494** | 539,549 |
| NET CURRENT ASSETS | | **170,826** | 204,546 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **240,449** | 413,219 |

# Consolidated Statement of Financial Position (Continued)

30 June 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Non-redeemable convertible preferred shares | 26 | **9,236** | 8,183 |
| Interest-bearing bank and other borrowings | 25 | **62,800** | 33,000 |
| Deferred tax liabilities | 27 | **14,281** | 14,995 |
| Total non-current liabilities | | **86,317** | 56,178 |
| Net assets | | **154,132** | 357,041 |
| EQUITY | | | |
| **Equity attributable to owners of the Company** | | | |
| Issued capital | 28 | **142,239** | 142,152 |
| Non-redeemable convertible preferred shares | 26 | **69,801** | 69,801 |
| Reserves | | **(57,908)** | 145,088 |
| Total equity | | **154,132** | 357,041 |

**Hui Lung Hing**
*Director*

**Xiang Song**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 30 June 2012

| | | Attributable to owners of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital RMB'000 | Share premium account RMB'000 | Share option reserve RMB'000 | Non-redeemable convertible preferred shares# RMB'000 | Statutory reserve RMB'000 | Warrants reserve RMB'000 | Capital reserve RMB'000 | Capital contribution reserve RMB'000 | Equity component of convertible bonds RMB'000 | Exchange fluctuation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 July 2010 | | 123,651 | 342,184 | 6,779 | — | 14,274 | — | 63,966 | 48,448 | 15,016 | 27,091 | (121,899) | 519,510 | 21,488 | 540,998 |
| Loss for the year | | — | — | — | — | — | — | — | — | — | — | (229,653) | (229,653) | (706) | (230,359) |
| Other comprehensive income for the year: Exchange differences on translation of foreign operations | | — | — | — | — | — | — | — | — | — | 4,128 | — | 4,128 | — | 4,128 |
| Total comprehensive loss for the year | | — | — | — | — | — | — | — | — | — | 4,128 | (229,653) | (225,525) | (706) | (226,231) |
| Acquisition of non-controlling interests | | — | — | — | 69,801 | — | — | (57,037) | — | — | — | — | 12,764 | (20,782) | (8,018) |
| Issue of shares upon conversion of convertible bonds | 28(a) | 18,443 | 33,195 | — | — | — | — | — | — | (15,016) | — | — | 36,622 | — | 36,622 |
| Equity-settled share option arrangements | 29 | — | — | 11,675 | — | — | — | — | — | — | — | — | 11,675 | — | 11,675 |
| Exercise of share options | 28(b) | 58 | 109 | — | — | — | — | — | — | — | — | — | 167 | — | 167 |
| Transfer from share option reserve | 28(b) | — | 62 | (62) | — | — | — | — | — | — | — | — | — | — | — |
| Issue of warrants | 30 | — | — | — | — | — | 1,828 | — | — | — | — | — | 1,828 | — | 1,828 |
| At 30 June 2011 | | 142,152 | 375,550* | 18,392* | 69,801 | 14,274* | 1,828* | 6,929* | 48,448* | — | 31,219* | (351,552)* | 357,041 | — | 357,041 |

# Consolidated Statement of Changes in Equity (Continued)

Year ended 30 June 2012

| | | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital RMB'000 | Share premium account RMB'000 | Share option reserve RMB'000 | Non-redeemable convertible preferred shares RMB'000 | Statutory reserve RMB'000 | Warrants reserve RMB'000 | Capital reserve RMB'000 | Capital contribution reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Accumulated losses RMB'000 | Total equity RMB'000 |
| At 1 July 2011 | | 142,152 | 375,550 | 18,392 | 69,801 | 14,274 | 1,828 | 6,929 | 48,448 | 31,219 | (351,552) | 357,041 |
| Loss for the year | | — | — | — | — | — | — | — | — | — | (204,591) | (204,591) |
| Other comprehensive income for the year: | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | — | — | — | — | — | — | — | — | 616 | — | 616 |
| Total comprehensive loss for the year | | — | — | — | — | — | — | — | — | 616 | (204,591) | (203,975) |
| Exercise of share options | 28(c) | 87 | 165 | — | — | — | — | — | — | — | — | 252 |
| Transfer from share option reserve | 28(c) | — | 80 | (80) | — | — | — | — | — | — | — | — |
| Issue of warrants | 30 | — | — | — | — | — | 814 | — | — | — | — | 814 |
| Transfer of warrants reserve upon the expiry of the warrants | 30 | — | — | — | — | — | (1,828) | — | — | — | 1,828 | — |
| Transfer from retained profits | | — | — | — | — | 1,932 | — | — | — | — | (1,932) | — |
| At 30 June 2012 | | 142,239 | 375,795* | 18,312* | 69,801 | 16,206* | 814* | 6,929* | 48,448* | 31,835* | (556,247)* | 154,132 |

# The non-redeemable convertible preferred shares were issued to Mr. Yin Jiatang as the consideration paid for the 30% equity interests in Stephigh Group Limited.

* These reserve accounts comprise the consolidated reserves of RMB57,908,000 in debit side (2011: RMB145,088,000 in credit side) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 30 June 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before tax | | **(168,067)** | (166,535) |
| Adjustments for: | | | |
| Finance costs | 7 | **19,387** | 19,118 |
| Interest income | 5 | **(1,483)** | (1,899) |
| Loss on disposal of items of property, plant and equipment | 6 | **24** | 10,759 |
| Loss on disposal of subsidiaries | 6 | **12,057** | — |
| Fair value losses/(gains), net: | | | |
| Equity investments at fair value through profit or loss | 6 | **76** | (32) |
| Depreciation | 13 | **11,750** | 12,958 |
| Amortisation of prepaid land lease payments | 15 | **336** | 498 |
| Amortisation of intangible assets | | **138** | 70 |
| Changes in fair value of investment properties | 14 | **(240)** | — |
| Provision against inventories | 6 | **11,111** | 31 |
| Provision for impairment of trade and other receivables | 6 | **1,128** | 3,704 |
| Written-back of payables | 5 | **(4,699)** | (1,768) |
| Impairment of property, plant and equipment | 6 | **9,060** | 30,010 |
| Equity-settled share option expense | 29 | **—** | 11,675 |
| | | **(109,422)** | (81,411) |
| (Increase)/decrease in inventories | | **(4,409)** | 50,175 |
| Decrease in trade and bills receivables | | **12,533** | 51,854 |
| Increase in deposits and other receivables | | **(2,253)** | (13,534) |
| Increase/(decrease) in trade and bills payables | | **916** | (22,806) |
| Increase in other payables and accruals | | **5,116** | 29,099 |
| (Increase)/decrease in pledged deposits | | **(5,949)** | 945 |
| Cash (used in)/generated from operations | | **(103,468)** | 14,322 |
| Taxes paid | | **(7,534)** | (4,091) |
| Net cash flows (used in)/from operating activities | | **(111,002)** | 10,231 |

# Consolidated Statement of Cash Flows (Continued)

Year ended 30 June 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | 5 | **1,483** | 1,899 |
| Purchases of items of property, plant and equipment | | **(24,041)** | (92,919) |
| Proceeds from disposal of items of property, plant and equipment | | **170** | 2,369 |
| Purchase of equity investments at fair value through profit or loss | | **(450)** | (500) |
| Proceeds from sales of equity investments at fair value through profit or loss | | **150** | 1,043 |
| Additions to intangible assets | | **—** | (696) |
| Disposal of subsidiaries | 31 | **(85,734)** | — |
| Net cash flows used in investing activities | | **(108,422)** | (88,804) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of warrants | 30 | **814** | 1,828 |
| Proceeds from exercise of share options | 28 | **252** | 167 |
| New bank loans and other borrowings | | **173,597** | 266,000 |
| Repayment of bank and other borrowings | | **(192,200)** | (247,000) |
| Decrease in an amount due to a director | | **(1,149)** | — |
| Interest paid | | **(15,223)** | (18,953) |
| Net cash flows (used in)/from financing activities | | **(33,909)** | 2,042 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(253,333)** | (76,531) |
| Cash and cash equivalents at beginning of year | | **400,298** | 476,972 |
| Effect of foreign exchange rate changes, net | | **367** | (143) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **147,332** | 400,298 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 21 | **147,332** | 400,298 |

# Statement of Financial Position

30 June 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **550** | 794 |
| Investments in subsidiaries | 16 | **221,932** | 221,932 |
| Total non-current assets | | **222,482** | 222,726 |
| CURRENT ASSETS | | | |
| Due from subsidiaries | 16 | **—** | 95,138 |
| Prepayments, deposits and other receivables | 19 | **732** | 767 |
| Cash and cash equivalents | 21 | **1,255** | 2,734 |
| Total current assets | | **1,987** | 98,639 |
| CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | 25 | **4,239** | — |
| Due to subsidiaries | 16 | **69,325** | 162,822 |
| Other payables and accruals | 23 | **901** | 785 |
| Due to a director | 24 | **408** | 1,663 |
| Total current liabilities | | **74,873** | 165,270 |
| NET CURRENT LIABILITIES | | **(72,886)** | (66,631) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **149,596** | 156,095 |
| NON-CURRENT LIABILITIES | | | |
| Non-redeemable convertible preferred shares | 26 | **9,236** | 8,183 |
| Total non-current liabilities | | **9,236** | 8,183 |
| Net assets | | **140,360** | 147,912 |
| EQUITY | | | |
| Issued capital | 28 | **142,239** | 142,152 |
| Non-redeemable convertible preferred shares | 26 | **69,801** | 69,801 |
| Reserves | | **(71,680)** | (64,041) |
| Total equity | | **140,360** | 147,912 |

**Hui Lung Hing**
*Director*

**Xiang Song**
*Director*

# Notes to Financial Statements

30 June 2012

## 1. CORPORATE INFORMATION

Kingwell Group Limited is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of rigid printed circuit boards ("RPCBs") and flexible printed circuit boards ("FPCBs")
- provision of surface mounting technology processing services
- property development

## 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, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, equity investments and non-redeemable convertible preferred shares, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2012. 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 (Continued)

30 June 2012

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| HKFRS 1 Amendment | Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* |
| 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* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets* |
| HKAS 24 (Revised) | *Related Party Disclosures* |
| 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), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effect of adopting HKAS 24 (Revised) *Related Party Disclosures* is as follows:

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 36 to the consolidated financial statements.

# Notes to Financial Statements (Continued)

30 June 2012

## 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 — Government Loans*[3] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments*: *Disclosures — Offsetting Financial Assets and Financial Liabilities*[3] |
| HKFRS 9 | *Financial Instruments*[5] |
| HKFRS 10 | *Consolidated Financial Statements*[3] |
| HKFRS 11 | *Joint Arrangements*[3] |
| HKFRS 12 | *Disclosure of Interests in Other Entities*[3] |
| HKFRS 13 | *Fair Value Measurement*[3] |
| HKAS 1 Amendments | Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[2] |
| HKAS 12 Amendments | Amendments to HKAS 12 *Income Taxes — Deferred Tax*: *Recovery of Underlying Assets*[1] |
| HKAS 19 (2011) | *Employee Benefits*[3] |
| HKAS 27 (2011) | *Separate Financial Statements*[3] |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures*[3] |
| HKAS 32 Amendments | Amendments to HKAS 32 Financial Instruments: *Presentation — Offsetting Financial Assets and Financial Liabilities*[4] |
| HK(IFRIC)-Int 20 | *Stripping Costs in the Production Phase of a Surface Mine*[3] |
| Annual Improvements to HKFRSs 2009–2011 Cycle | Amendments to a number of HKFRSs issued in June 2012[3] |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12: *Transition Guidance*[3] |

[1] Effective for annual periods beginning on or after 1 January 2012
[2] Effective for annual periods beginning on or after 1 July 2012
[3] Effective for annual periods beginning on or after 1 January 2013
[4] Effective for annual periods beginning on or after 1 January 2014
[5] 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. Further information about those changes that are expected to significantly affect the Group is as follows:

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 July 2012. Upon the adoption, the Group's deferred tax liability with respect to investment properties located in the Mainland China is expected to be the same since the appreciation rate of the investment properties is within the exemption of the land appreciation tax in the Mainland China.

So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

# Notes to Financial Statements (Continued)

30 June 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's profit or loss 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.

# Notes to Financial Statements (Continued)

30 June 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations and goodwill (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 June. 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.

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

### Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss 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 profit or loss 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.

# Notes to Financial Statements (Continued)

30 June 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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

(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, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. 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 profit or loss 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.

# Notes to Financial Statements (Continued)

30 June 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment and depreciation (Continued)

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

| | |
|---|---|
| Buildings | 3.6% |
| Leasehold improvements | Over the shorter of the lease terms and 20% |
| Plant and machinery | 9% |
| Furniture and fixtures | 18% |
| Motor vehicles | 28% |

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

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

### Investment properties

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

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

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

# Notes to Financial Statements (Continued)

30 June 2012

## 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.

#### Computer software

Software is stated at cost less impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

### Operating leases

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

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

### Investments and other financial assets

#### Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, 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, equity investments at fair value through profit or loss.

# Notes to Financial Statements (Continued)

30 June 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets (Continued)

**Subsequent measurement**

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

**Financial assets at fair value through profit or loss**

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs in profit or loss. 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 profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

# Notes to Financial Statements (Continued)

30 June 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Derecognition of financial assets

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

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

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

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

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

### Impairment of financial assets

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

#### Financial assets carried at amortised cost

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

# Notes to Financial Statements (Continued)

30 June 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (Continued)

#### Financial assets carried at amortised cost (Continued)

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 profit or loss. 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 profit or loss.

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as 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, convertible preferred shares, interest-bearing bank and other borrowings and an amount due to a director.

#### 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 profit or loss 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 profit or loss.

# Notes to Financial Statements (Continued)

30 June 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial liabilities (Continued)

**Non-redeemable convertible preferred shares**

Non-redeemable convertible preferred shares issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

Non-redeemable convertible preferred shares are classified as a liability if interest payments are not discretionary. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the preferred shares and the fair value assigned to the liability component, representing the conversion option for the holder to convert the preferred shares into equity, is included in equity.

In subsequent periods, the liability component of non-redeemable convertible preferred shares is carried at amortised cost using the effective interest method. The equity component will remain in equity until the conversion options are exercised and will be transferred to share capital and share premium of the Company.

### 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 profit or loss.

### 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 position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

# Notes to Financial Statements (Continued)

30 June 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax

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

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

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

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

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

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

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

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

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

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

# Notes to Financial Statements (Continued)

30 June 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax (Continued)

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

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

### 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 sales 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 rendering of services, upon completion of such services;

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

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

### 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 the Binomial Option Pricing model and Black-Scholes model, further details of which are given in note 29 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 profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

# Notes to Financial Statements (Continued)

30 June 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payment transactions (Continued)

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 schemes

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 5% of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

# Notes to Financial Statements (Continued)

30 June 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Dividends

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

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

### Foreign currencies

These financial statements are presented in RMB. The functional currencies of the Company and its subsidiaries in Mainland China are the Hong Kong dollar and RMB, respectively. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the 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 currency of subsidiaries outside Mainland China is the 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 the Company at exchange rates ruling at the end of the reporting period and their profit or loss is translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries outside Mainland China are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries outside Mainland China which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

# Notes to Financial Statements (Continued)

30 June 2012

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### Judgements

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

**Operating lease commitments — Group as lessor**

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

**Classification between investment properties and owner-occupied properties**

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

**Recognition of a deferred tax liability for withholding taxes**

Deferred income tax liabilities have been established for withholding tax that would be payable on certain profits of the subsidiaries in Mainland China to be repatriated and distributed by way of dividends.

### Estimation uncertainty

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

**Provision for impairment of trade and other receivables**

Provision for impairment of trade and other receivables is made based on the assessment of the recoverability of trade receivables and other receivables. The identification of impairment of trade and other receivables requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the receivables and impairment of trade and other receivables in the year in which such estimate has been changed.

# Notes to Financial Statements (Continued)

30 June 2012

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty (Continued)

**Estimation of fair value of investment properties**

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

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

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

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

The principal assumptions for the Group's estimation of the fair value include those related to recent market selling prices for similar properties in the same location and condition, appropriate discount rates, and expected future maintenance cost. The carrying amount of investment properties at 30 June 2012 was RMB1,800,000 (2011: Nil).

**Impairment of non-financial assets (other than goodwill)**

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

**Deferred tax assets**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets related to tax losses is recognised in respect to 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 tax losses can be utilised.

# Notes to Financial Statements (Continued)

30 June 2012

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty (Continued)

**PRC land appreciation taxes**

The Group is subject to land appreciation taxes in Mainland China. The provision for land appreciation taxes is based on management's best estimates according to its understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual land appreciation tax liabilities are subject to the determination by the tax authorities upon completion of the property development projects. The Group has not finalised its land appreciation tax calculations and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact the land appreciation tax expenses and the related provision in the period in which the differences realise.

## 4. OPERATING SEGMENT INFORMATION

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

(a) the electronic products segment engages in the manufacture and sale of rigid printed circuit boards ("RPCBs") and flexible printed circuit boards ("FPCBs");

(b) the electronic processing services segment engages in the provision of surface mounting technology ("SMT") processing services; and

(c) the property development segment engages in the development of villas, houses, apartments, residential buildings, and commercial buildings.

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. The adjusted profit/(loss) before tax is measured consistently with the Group's loss before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, equity investments at fair value through profit or loss and other unallocated head office and corporate assets, as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities, an amount due to a director and other unallocated head office and corporate liabilities, as these liabilities are managed on a group basis.

# Notes to Financial Statements (Continued)

30 June 2012

## 4. OPERATING SEGMENT INFORMATION (Continued)

| Year ended 30 June 2012 | Electronic products RMB'000 | SMT processing services RMB'000 | Property development RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Segment revenue:** | | | | |
| Sales to external customers | 178,843 | 2,309 | 98,835 | 279,987 |
| Other revenue | 3,249 | 1,862 | 340 | 5,451 |
| | 182,092 | 4,171 | 99,175 | 285,438 |
| **Segment results** | (150,181) | (550) | 22,506 | (128,225) |
| *Reconciliation:* | | | | |
| Interest income | | | | 1,483 |
| Corporate and other unallocated expenses | | | | (21,938) |
| Finance costs | | | | (19,387) |
| Loss before tax | | | | (168,067) |
| **Segment assets** | 304,073 | — | 203,876 | 507,949 |
| *Reconciliation:* | | | | |
| Corporate and other unallocated assets | | | | 3,994 |
| | | | | 511,943 |
| **Segment liabilities** | 218,541 | — | 102,974 | 321,515 |
| *Reconciliation:* | | | | |
| Corporate and other unallocated liabilities | | | | 36,296 |
| | | | | 357,811 |
| **Other segment information:** | | | | |
| Impairment of property, plant and equipment | 9,060 | — | — | 9,060 |
| Depreciation and amortisation | 10,797 | 998 | 429 | 12,224 |
| Provision against inventories | 11,111 | — | — | 11,111 |
| Provision for impairment of trade and other receivables | 959 | 169 | — | 1,128 |
| Capital expenditure | 26,921 | — | 40 | 26,961 |

# Notes to Financial Statements (Continued)

30 June 2012

## 4. OPERATING SEGMENT INFORMATION (Continued)

| Year ended 30 June 2011 | Electronic products RMB'000 | SMT processing services RMB'000 | Property development RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Segment revenue:** | | | | |
| Sales to external customers | 244,808 | 5,326 | 104,443 | 354,577 |
| Other revenue | 1,795 | 983 | 39 | 2,817 |
| | 246,603 | 6,309 | 104,482 | 357,394 |
| **Segment results** | (92,843) | (15,842) | 15,581 | (93,104) |
| *Reconciliation:* | | | | |
| Interest income | | | | 1,899 |
| Corporate and other unallocated expenses | | | | (56,212) |
| Finance costs | | | | (19,118) |
| Loss before tax | | | | (166,535) |
| **Segment assets** | 585,847 | 107,540 | 231,828 | 925,215 |
| *Reconciliation:* | | | | |
| Elimination of intersegment receivables | | | | (6,914) |
| Corporate and other unallocated assets | | | | 34,467 |
| | | | | 952,768 |
| **Segment liabilities** | 226,850 | 204,021 | 140,092 | 570,963 |
| *Reconciliation:* | | | | |
| Elimination of intersegment payables | | | | (6,914) |
| Corporate and other unallocated liabilities | | | | 31,678 |
| | | | | 595,727 |
| **Other segment information:** | | | | |
| Impairment of property, plant and equipment | 30,010 | — | — | 30,010 |
| Depreciation and amortisation | 10,881 | 2,186 | 459 | 13,526 |
| Provision against inventories | 31 | — | — | 31 |
| Provision for/(reversal of) impairment of trade and other receivables | 3,814 | (110) | — | 3,704 |
| Capital expenditure | 87,179 | 4,481 | 1,955 | 93,615 |

# Notes to Financial Statements (Continued)

30 June 2012

## 4. OPERATING SEGMENT INFORMATION (Continued)

### Geographical information

#### (a) Revenue from external customers

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Mainland China | **246,859** | 294,786 |
| Overseas | **33,128** | 59,791 |
| | **279,987** | 354,577 |

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

#### (b) Non-current assets

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Mainland China | **68,110** | 177,830 |
| Hong Kong | **550** | 1,241 |
| | **68,660** | 179,071 |

The non-current asset information above is based on the location of the assets and excludes deferred tax assets.

### Information about a major customer

Revenue of approximately RMB23,200,000 (2011: RMB42,313,000) was derived from sales by the electronic products segment to a single customer.

# Notes to Financial Statements (Continued)

30 June 2012

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents: (i) the sales value of goods supplied to customers and service income from SMT processing services, net of value-added tax ("VAT") and other sales taxes, after allowances for returns and trade discounts; and (ii) revenue from sales of properties, net of business tax and other sales related taxes and is after deduction of any trade discounts.

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

| | **2012 RMB'000** | 2011 RMB'000 |
|---|---|---|
| **Revenue** | | |
| Sales of goods | **178,843** | 244,808 |
| Sales of properties | **98,835** | 104,443 |
| SMT processing service income | **2,309** | 5,326 |
| | **279,987** | 354,577 |
| **Other income** | | |
| Bank interest income | **1,483** | 1,899 |
| Rental income | **398** | 601 |
| Written-back of payables | **4,699** | 1,768 |
| Others | **114** | 416 |
| | **6,694** | 4,684 |
| **Gains** | | |
| Fair value gains on investment properties | **240** | — |
| Fair value gains on equity investments | **—** | 32 |
| | **6,934** | 4,716 |

# Notes to Financial Statements (Continued)

30 June 2012

## 6. LOSS BEFORE TAX

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

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| Cost of inventories sold | | **195,168** | 234,399 |
| Cost of properties sold | | **69,553** | 85,195 |
| Cost of services provided | | **2,870** | 4,136 |
| Depreciation | 13 | **11,750** | 12,958 |
| Amortisation of intangible assets | | **138** | 70 |
| Amortisation of prepaid land lease payments | 15 | **336** | 498 |
| Minimum lease payments under operating leases: | | | |
| Land and buildings | | **1,379** | 1,520 |
| Auditors' remuneration | | **1,573** | 1,461 |
| Staff costs (excluding directors' remuneration): | | | |
| Salaries and wages | | **57,373** | 67,801 |
| Pension scheme contributions | | **11,360** | 5,036 |
| Equity-settled share option expense | | **—** | 6,350 |
| | | **68,733** | 79,187 |
| Repair and maintenance costs | | **68,164** | 34,022 |
| Impairment of property, plant and equipment | 13 | **9,060** | 30,010 |
| Provision for impairment of trade and other receivables | | **1,128** | 3,704 |
| Provision against inventories | | **11,111** | 31 |
| Loss on disposal of items of property, plant and equipment | | **24** | 10,759 |
| Foreign exchange differences, net | | **2,793** | 4,929 |
| Changes in fair value of investment properties | 14 | **(240)** | — |
| Changes in fair value of equity financial instruments | | **76** | (32) |
| Loss on disposal of subsidiaries | 31 | **12,057** | — |

# Notes to Financial Statements (Continued)

30 June 2012

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Interest on: | | |
| Bank and other borrowings | **19,762** | 19,281 |
| Non-redeemable convertible preferred shares | **1,260** | 167 |
| | **21,022** | 19,448 |
| Less: Interest capitalised | **(1,635)** | (330) |
| | **19,387** | 19,118 |

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|---|---|
| | 2012<br>RMB'000 | 2011<br>RMB'000 |
| Fees | **314** | 300 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **2,207** | 2,730 |
| Equity-settled share option expense | **—** | 1,636 |
| Pension scheme contributions | **20** | 19 |
| | **2,227** | 4,385 |
| | **2,541** | 4,685 |

# Notes to Financial Statements (Continued)

30 June 2012

## 8. DIRECTORS' REMUNERATION (Continued)

In the prior year, one director was granted share options, in respect of his service to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options which has been recognised in profit or loss over the vesting period was determined as at the date of grant and the amount included in the financial statements for the prior year is included in the above directors' remuneration disclosures.

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Mr. Cheung Chuen | 98 | 100 |
| Mr. Li Jianguo | — | 43 |
| Ms. Wong Lai Wing | 147 | 100 |
| Mr. Huang Jianzi | 69 | 57 |
| | 314 | 300 |

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

# Notes to Financial Statements (Continued)

30 June 2012

## 8. DIRECTORS' REMUNERATION (Continued)

### (b) Executive directors

| | Salaries, allowances and benefits in kind RMB'000 | Equity-settled share option expense RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|
| **2012** | | | | |
| Executive directors: | | | | |
| Mr. Xiang Song | **294** | — | — | **294** |
| Mr. Lin Wanxin | **196** | — | — | **196** |
| Ms. Xu Yueyue | **588** | — | — | **588** |
| Mr. Sze Ming Yee | **245** | — | **10** | **255** |
| Mr. Hui Lung Hing | **637** | — | **10** | **647** |
| Mr. Yang Xuejun | **247** | — | — | **247** |
| | **2,207** | — | **20** | **2,227** |
| 2011 | | | | |
| Executive directors: | | | | |
| Mr. Xiang Song | 299 | — | — | 299 |
| Mr. Lin Wanxin | 536 | — | — | 536 |
| Ms. Xu Yueyue | 998 | — | — | 998 |
| Mr. Sze Ming Yee | 299 | — | 10 | 309 |
| Mr. Hui Lung Hing | 299 | 1,636 | 9 | 1,944 |
| Mr. Yang Xuejun | 299 | — | — | 299 |
| | 2,730 | 1,636 | 19 | 4,385 |

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

# Notes to Financial Statements (Continued)

30 June 2012

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2011: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2011: two) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **1,341** | 675 |
| Equity-settled share option expense | — | 755 |
| Pension scheme contributions | **20** | 14 |
| | **1,361** | 1,444 |

In the prior years, share options were granted to non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the prior year is included in the above non-director, highest paid employees' remuneration disclosures.

## 10. INCOME TAX

The Company is a tax exempted company registered in the Cayman Islands and conducts substantially all of its business through its subsidiaries established in Mainland China (the "PRC Subsidiaries").

No provision for Hong Kong profits tax has been made (2011: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Group: | | |
| Current — Mainland China | | |
| Provision for enterprise income tax | **8,599** | 7,351 |
| Deferred (note 27) | **27,925** | 56,473 |
| Total tax charge for the year | **36,524** | 63,824 |

# Notes to Financial Statements (Continued)

30 June 2012

## 10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to loss before tax at the statutory tax rate for the country in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

**Group**

| | **2012 RMB'000** | 2011 RMB'000 |
|---|---|---|
| Loss before tax | **(168,067)** | (166,535) |
| Tax at the statutory tax rate of 25% | **(42,017)** | (41,634) |
| Income not subject to tax | **(551)** | (1,651) |
| Expenses not deductible for tax | **14,261** | 12,004 |
| Effect of withholding tax at 10% on the distributable profits of the Group's PRC Subsidiaries | **1,931** | (6,111) |
| Tax losses not recognised | **34,474** | 31,981 |
| Temporary differences not recognised | **28,426** | 69,235 |
| Tax charge at the Group's effective rate | **36,524** | 63,824 |
| The Group's effective income tax rate | **(21.7%)** | (38.3%) |

## 11. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 30 June 2012 includes a loss of RMB9,915,000 (2011: RMB56,212,000) which has been dealt with in the financial statements of the Company (note 30).

# Notes to Financial Statements (Continued)

30 June 2012

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

The calculation of basic loss per share is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,513,797,000 (2011: 1,495,877,000) in issue during the year.

No adjustments has been made to the basic loss per share amounts presented for the years ended 30 June 2012 and 2011 in respect of a dilution as the impact of the warrants, share options and non-redeemable convertible preferred shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic and diluted loss per share are based on:

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| **Loss** | | |
| Loss attributable to ordinary equity holders of the Company, used in the basic loss per share calculation | **204,591** | 229,653 |

| | Number of shares<br>2012 | <br>2011 |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation | **1,513,797,000** | 1,495,877,000 |
| Effect of dilution — weighted average number of ordinary shares: | | |
| Warrants | **97,085,000** | 153,363,000 |
| Share options | **149,436,000** | 100,483,000 |
| Non-redeemable convertible preferred shares | **310,000,000** | 49,260,000 |
| | **556,521,000** | 303,106,000 |
| | **2,070,318,000** | 1,798,983,000 |

For the years ended 30 June 2012 and 2011, because the diluted loss per share amounts decreased when taking the warrants, share options and non-redeemable convertible preferred shares into account, the warrants, share options and non-redeemable convertible preferred shares had an anti-dilutive effect on the basic loss per share for the years and were ignored in the calculation of diluted loss per share. Therefore, diluted loss per share amounts were based on the loss for the years of RMB204,591,000 and RMB229,653,000, respectively, and the weighted average number of ordinary shares of 1,513,797,000 and 1,495,877,000, respectively, in issue during the years.

# Notes to Financial Statements (Continued)

30 June 2012

## 13. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB 000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **30 June 2012** | | | | | | | |
| Cost or valuation: | | | | | | | |
| At 1 July 2011 | 356,449 | 525 | 222,240 | 108,869 | 11,045 | 89,763 | 788,891 |
| Additions | 1,153 | — | 1,793 | 65 | 2,009 | 21,941 | 26,961 |
| Transfers | — | — | 462 | 3,090 | — | (3,552) | — |
| Disposals | — | — | — | — | (722) | — | (722) |
| Disposal of subsidiaries (note 31) | (300,988) | — | (95,114) | (19,458) | (5,428) | (89,763) | (510,751) |
| Exchange realignment | — | (10) | — | (14) | (17) | — | (41) |
| At 30 June 2012 | 56,614 | 515 | 129,381 | 92,552 | 6,887 | 18,389 | 304,338 |
| Accumulated depreciation: | | | | | | | |
| At 1 July 2011 | 18,718 | 190 | 95,698 | 26,904 | 4,570 | — | 146,080 |
| Depreciation provided during the year | 5,127 | 123 | 2,006 | 3,912 | 582 | — | 11,750 |
| Disposals | — | — | — | — | (528) | — | (528) |
| Disposal of subsidiaries (note 31) | (16,772) | — | (20,148) | (5,547) | (1,687) | — | (44,154) |
| Exchange realignment | — | (4) | — | (8) | (3) | — | (15) |
| At 30 June 2012 | 7,073 | 309 | 77,556 | 25,261 | 2,934 | — | 113,133 |
| Impairment: | | | | | | | |
| At 1 July 2011 | 216,589 | 53 | 102,324 | 69,280 | 3,003 | 89,763 | 481,012 |
| Additions | 120 | — | 5,102 | 3,838 | — | — | 9,060 |
| Disposal of subsidiaries (note 31) | (200,963) | — | (57,775) | (12,907) | (2,068) | (89,763) | (363,476) |
| Exchange realignment | — | (1) | — | (1) | — | — | (2) |
| At 30 June 2012 | 15,746 | 52 | 49,651 | 60,210 | 935 | — | 126,594 |
| Net book value: | | | | | | | |
| At 30 June 2011 | 121,142 | 282 | 24,218 | 12,685 | 3,472 | — | 161,799 |
| At 30 June 2012 | 33,795 | 154 | 2,174 | 7,081 | 3,018 | 18,389 | 64,611 |
| Analysis of cost or valuation: | | | | | | | |
| At cost | — | 515 | 129,381 | 92,552 | 6,887 | 18,389 | 247,724 |
| At valuation | 56,614 | — | — | — | — | — | 56,614 |
| | 56,614 | 515 | 129,381 | 92,552 | 6,887 | 18,389 | 304,338 |

# Notes to Financial Statements (Continued)

30 June 2012

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

### Group

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| 30 June 2011 | | | | | | | |
| Cost or valuation: | | | | | | | |
| At 1 July 2010 | 280,812 | 551 | 247,928 | 106,769 | 8,209 | 89,621 | 733,890 |
| Additions | 5,324 | — | 5,689 | 25 | 3,653 | 78,563 | 93,254 |
| Transfers | 76,313 | — | — | 2,108 | — | (78,421) | — |
| Disposals | (6,000) | — | (31,377) | — | (796) | — | (38,173) |
| Exchange realignment | — | (26) | — | (33) | (21) | — | (80) |
| At 30 June 2011 | 356,449 | 525 | 222,240 | 108,869 | 11,045 | 89,763 | 788,891 |
| Accumulated depreciation: | | | | | | | |
| At 1 July 2010 | 16,698 | 77 | 102,588 | 23,627 | 3,527 | — | 146,517 |
| Depreciation provided during the year | 4,505 | 121 | 3,698 | 3,296 | 1,338 | — | 12,958 |
| Disposals | (2,485) | — | (10,588) | — | (292) | — | (13,365) |
| Exchange realignment | — | (8) | — | (19) | (3) | — | (30) |
| At 30 June 2011 | 18,718 | 190 | 95,698 | 26,904 | 4,570 | — | 146,080 |
| Impairment: | | | | | | | |
| At 1 July 2010 | 196,772 | 55 | 110,570 | 69,287 | 3,259 | 82,748 | 462,691 |
| Additions | 22,995 | — | — | — | — | 7,015 | 30,010 |
| Disposals | (3,178) | — | (8,246) | — | (256) | — | (11,680) |
| Exchange realignment | — | (2) | — | (7) | — | — | (9) |
| At 30 June 2011 | 216,589 | 53 | 102,324 | 69,280 | 3,003 | 89,763 | 481,012 |
| Net book value: | | | | | | | |
| At 30 June 2010 | 67,342 | 419 | 34,770 | 13,855 | 1,423 | 6,873 | 124,682 |
| At 30 June 2011 | 121,142 | 282 | 24,218 | 12,685 | 3,472 | — | 161,799 |
| Analysis of cost or valuation: | | | | | | | |
| At cost | — | 525 | 222,240 | 108,869 | 11,045 | 89,763 | 432,442 |
| At valuation | 356,449 | — | — | — | — | — | 356,449 |
| | 356,449 | 525 | 222,240 | 108,869 | 11,045 | 89,763 | 788,891 |

At 30 June 2012, certain of the Group's buildings with a net carrying amount of approximately RMB30,666,000 (2011: RMB117,460,000) were pledged to secure general banking facilities granted to the Group (note 25).

# Notes to Financial Statements (Continued)

30 June 2012

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

### Impairment loss

During the year ended 30 June 2009, the Group experienced a significant drop in demand for its PCBs and related products under the prevailing market environment and consequently recorded operating losses. The directors considered that the existence of the above conditions indicated that non-current assets of Fujian Fuqiang Delicate Circuit Plate Co., Ltd. ("Fuqiang"), Gemini Electronics (Huizhou) Co., Ltd. ("Gemini"), Shuangxiang (Fujian) Electronic Limited ("Shuangxiang") and Fuqing Haichuang Electron Technology Co., Ltd. ("Haichuang") may be impaired. In view of this, the directors prepared a cash flow projection to estimate the recoverable amount of these assets and recognised an impairment loss of RMB296,078,000 against those non-current assets for that year.

During the year ended 30 June 2010, the market conditions surrounding the Group's PCBs and related products were far more difficult than expected and the Group continued to record operating losses. As a result, the directors revised the cash flow projection based on the prevailing market information to reassess the recoverable amount of the non-current assets and recognised an additional impairment loss of RMB203,801,000 for that year.

During the years ended 30 June 2011 and 2012, the market conditions surrounding the Group's PCBs and related products continued and the Group continued to record operating losses. The directors considered that the existence of the above conditions indicated that non-current assets of Fuqiang, Gemini, Shuangxiang and Haichuang may be impaired. As a result, the Group's PCBs and related products' non-current assets were revalued by an independent firm of surveyors, Greater China Appraisal Limited who had among their staff a Professional Member of the Hong Kong Institute of Surveyors, with recent experience in the location and category being valued on a market approach. As a result, the Group recognised additional impairment losses of RMB30,010,000 and RMB9,060,000, respectively, for the years.

Had the revalued buildings held for own use of the Group been carried at cost less accumulated depreciation and impairment losses, their carrying amount would have been RMB30,666,000 (2011: RMB119,816,000).

# Notes to Financial Statements (Continued)

30 June 2012

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

**Company**

| | Leasehold improvements RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **30 June 2012** | | | | |
| Cost or valuation: | | | | |
| At 1 July 2011 | **418** | **357** | **353** | **1,128** |
| Additions | **—** | **2** | **—** | **2** |
| Exchange realignment | **(10)** | **(6)** | **(7)** | **(23)** |
| At 30 June 2012 | **408** | **353** | **346** | **1,107** |
| Accumulated depreciation: | | | | |
| At 1 July 2011 | **136** | **139** | **59** | **334** |
| Depreciation provided during the year | **123** | **46** | **62** | **231** |
| Exchange realignment | **(4)** | **(2)** | **(2)** | **(8)** |
| At 30 June 2012 | **255** | **183** | **119** | **557** |
| Net book value: | | | | |
| At 30 June 2011 | **282** | **218** | **294** | **794** |
| At 30 June 2012 | **153** | **170** | **227** | **550** |
| 30 June 2011 | | | | |
| Cost or valuation: | | | | |
| At 1 July 2010 | 437 | 344 | — | 781 |
| Additions | — | 30 | 361 | 391 |
| Exchange realignment | (19) | (17) | (8) | (44) |
| At 30 June 2011 | 418 | 357 | 353 | 1,128 |
| Accumulated depreciation: | | | | |
| At 1 July 2010 | 18 | 93 | — | 111 |
| Depreciation provided during the year | 121 | 52 | 60 | 233 |
| Exchange realignment | (3) | (6) | (1) | (10) |
| At 30 June 2011 | 136 | 139 | 59 | 334 |
| Net book value: | | | | |
| At 30 June 2010 | 419 | 251 | — | 670 |
| At 30 June 2011 | 282 | 218 | 294 | 794 |

# Notes to Financial Statements (Continued)

30 June 2012

## 14. INVESTMENT PROPERTIES

| | Group 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Carrying amount at 1 July | — | — |
| Transfer from own-occupied property | 1,560 | — |
| Net gain from a fair value adjustment | 240 | — |
| Carrying amount at 30 June | 1,800 | — |

The Group's investment properties are situated in the Mainland China and are held under the following lease terms:

| | RMB'000 | RMB'000 |
|---|---|---|
| Long term leases | 1,800 | — |

The Group's investment properties were revalued on 30 June 2012 by Roma Appraisals Limited, independent professionally qualified valuers, at RMB1,800,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

## 15. PREPAID LAND LEASE PAYMENTS

| | Group 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Carrying amount at 1 July | 17,144 | 17,642 |
| Recognised during the year | (336) | (498) |
| Disposal of subsidiaries (note 31) | (14,991) | — |
| Carrying amount at 30 June | 1,817 | 17,144 |
| Current portion included in prepayments, deposits and other receivables | (47) | (498) |
| Non-current portion | 1,770 | 16,646 |

At 30 June 2012, the Group's prepaid land lease payments with an aggregate carrying amount of RMB1,817,000 (2011: RMB17,144,000) were pledged to secure general banking facilities granted to the Group (note 25).

# Notes to Financial Statements (Continued)

30 June 2012

## 16. INVESTMENTS IN SUBSIDIARIES

| | Company 2012 RMB'000 | Company 2011 RMB'000 |
|---|---|---|
| Unlisted shares, at cost | **281,502** | 281,502 |
| Impairment# | **(59,570)** | (59,570) |
| | **221,932** | 221,932 |

# The impairment loss recognised in 2010 mainly related to the Group's property development activities in the Mainland China.

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of nil (2011: RMB95,138,000) and RMB69,325,000 (2011: RMB162,822,000), respectively, are unsecured, interest-free and are repayable on demand or within one year.

Particulars of the subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Superford Holding Limited | BVI/Hong Kong | US$10,001 | 100% | — | Investment holding |
| Artic Hong Kong Limited | Hong Kong | HK$2 | 100% | — | Provision of administrative services |
| Stephigh Group Limited | BVI/Hong Kong | US$50,000 | 100% | — | Investment holding |
| Rise Win Group Limited | BVI/Hong Kong | US$50,000 | — | 100% | Investment holding |
| Rising Ray China Group Limited | Hong Kong | HK$10,000 | — | 100% | Investment holding |
| Fujian Fuqiang Delicate Circuit Plate Co., Ltd.* | PRC/Mainland China | RMB138,000,000 | — | 100% | Manufacturing and trading of FPCBs |
| Anlu Taihe Real Estate Development Company* | PRC/Mainland China | RMB30,000,000 | — | 100% | Development and sale of real estate |

* Registered as wholly-foreign-owned enterprises under the PRC law.

# Notes to Financial Statements (Continued)

30 June 2012

## 17. INVENTORIES

| | Group 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| **Manufacturing of printed circuit boards** | | |
| Raw materials | **36,891** | 14,415 |
| Work in progress | **3,457** | 4,981 |
| Finished goods | **2,193** | 6,447 |
| Inventory provision | **(8,489)** | (2,418) |
| | **34,052** | 23,425 |
| **Property development** | | |
| Properties under development for sale | **99,613** | 57,201 |
| Completed properties held for sale | **91,737** | 157,210 |
| | **191,350** | 214,411 |
| | **225,402** | 237,836 |

## 18. TRADE AND BILLS RECEIVABLES

| | Group 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Trade and bills receivables | **94,178** | 139,752 |
| Impairment | **(59,693)** | (66,948) |
| | **34,485** | 72,804 |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. 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 these balances. Trade and bills receivables are non-interest-bearing.

# Notes to Financial Statements (Continued)

30 June 2012

## 18. TRADE AND BILLS RECEIVABLES (Continued)

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Within 1 month | **9,486** | 34,058 |
| 1 to 3 months | **22,602** | 30,399 |
| 3 months to 1 year | **2,397** | 8,347 |
| | **34,485** | 72,804 |

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| At 1 July | **66,948** | 65,605 |
| Impairment losses recognised | **1,096** | 1,343 |
| Disposal of subsidiaries | **(8,351)** | — |
| | **59,693** | 66,948 |

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of RMB59,693,000 (2011: RMB66,948,000) with a carrying amount before provision of RMB59,693,000 (2011: RMB66,948,000).

The individually impaired trade and bills receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and the balances were not expected to be recoverable.

# Notes to Financial Statements (Continued)

30 June 2012

## 18. TRADE AND BILLS RECEIVABLES (Continued)

The aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Neither past due nor impaired | **31,000** | 37,502 |
| Within 1 month past due | **1,527** | 16,420 |
| 1 to 3 months past due | **869** | 16,288 |
| 3 months to 1 year past due | **1,089** | 2,594 |
| | **34,485** | 72,804 |

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, 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.

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Advances to suppliers | **1,093** | 5,208 | **—** | — |
| Current portion of prepaid land lease payments (note 15) | **47** | 498 | **—** | — |
| Deposits and other receivables | **22,732** | 17,095 | **732** | 767 |
| | **23,872** | 22,801 | **732** | 767 |

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

# Notes to Financial Statements (Continued)

30 June 2012

## 20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group 2012 RMB'000 | Group 2011 RMB'000 |
|---|---|---|
| Equity investments, at market value: | | |
| PRC | **494** | 570 |

The above equity investments at 30 June 2012 and 2011 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss.

## 21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash and bank balances | **147,332** | 400,298 | **1,255** | 2,734 |
| Time deposits | **10,735** | 9,786 | — | — |
| | **158,067** | 410,084 | **1,255** | 2,734 |
| Less: Pledged and restricted time deposits: | | | | |
| Pledged for bills payable (note 22) | **(8,765)** | (3,450) | — | — |
| Pledged for short term loans (note 25) | **(1,970)** | (6,336) | — | — |
| Cash and cash equivalents | **147,332** | 400,298 | **1,255** | 2,734 |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB145,053,000 (2011: RMB395,879,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

# Notes to Financial Statements (Continued)

30 June 2012

## 22. TRADE AND BILLS PAYABLES

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Within 1 month | **32,978** | 52,412 |
| 1 to 3 months | **30,355** | 33,727 |
| 3 months to 1 year | **15,065** | 13,774 |
| Over 1 year | **1,288** | 2,201 |
| | **79,686** | 102,114 |

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

As at 30 June 2012, the Group's bills payable were secured by the deposit of RMB8,765,000 (2011: RMB3,450,000) (note 21).

## 23. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Advances from customers | **12,240** | 40,901 | **—** | — |
| Accruals | **7,629** | 5,280 | **422** | 234 |
| Other payables | **60,643** | 92,935 | **479** | 551 |
| | **80,512** | 139,116 | **901** | 785 |

Other payables are non-interest-bearing and have an average term of six months.

# Notes to Financial Statements (Continued)

30 June 2012

## 24. DUE TO A DIRECTOR

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Mr. Lin Wanxin | **582** | 2,267 |

| | Company | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Mr. Lin Wanxin | **408** | 1,663 |

The amount due to a director is unsecured, interest-free and has no fixed terms of repayment.

# Notes to Financial Statements (Continued)

30 June 2012

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS

**Group**

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **RMB'000** | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank loans — secured | **6.4–8.2** | **2012.12** | **99,358** | 4.8–7.6 | 2012.03 | 220,000 |
| Current portion of long term bank loans — secured | **—** | **—** | **—** | 6.0–7.9 | 2012.06 | 4,000 |
| Other loans — unsecured | **8.0** | **2012.10** | **4,239** | 5.3–9.0 | 2011.12 | 66,000 |
| Sub-total | | | **103,597** | | | 290,000 |
| **Non-current** | | | | | | |
| Bank loans — secured | **6.4** | **2014.01** | **15,000** | 5.9–7.9 | 2012.12–2014.01 | 33,000 |
| Other loans — unsecured | **8.65** | **2013.12** | **47,800** | — | — | — |
| Sub-total | | | **62,800** | | | 33,000 |
| Total | | | **166,397** | | | 323,000 |
| Analysed into: | | | | | | |
| Bank loans repayable: | | | | | | |
| Within one year or on demand | | | **99,358** | | | 224,000 |
| In the second year | | | **15,000** | | | 18,000 |
| In the third to fifth years | | | **—** | | | 15,000 |
| | | | **114,358** | | | 257,000 |
| Other borrowings repayable: | | | | | | |
| Within one year or on demand | | | **4,239** | | | 66,000 |
| In the second year | | | **47,800** | | | — |
| | | | **52,039** | | | 66,000 |
| | | | **166,397** | | | 323,000 |

# Notes to Financial Statements (Continued)

30 June 2012

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

### Company

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Other loans — unsecured | **8.0** | **2012.10** | **4,239** | — | — | — |

Notes:

Certain of the Group's bank loans are secured by:

(i) the pledge of certain of the Group's buildings situated in Mainland China, which had an aggregate carrying value at the end of the reporting period of approximately RMB30,666,000 (2011: RMB117,460,000) (note 13);

(ii) the pledge of the Group's leasehold land which had an aggregate carrying value at the end of the reporting period of approximately RMB1,817,000 (2011: RMB17,144,000) (note 15); and

(iii) the pledge of the Group's time deposit which had a carrying value at the end of the reporting period of approximately RMB1,970,000 (2011: RMB6,336,000) (note 21).

In addition, bank loans of RMB114,358,000 (2011: RMB184,000,000) were supported by guarantees provided by third parties.

# Notes to Financial Statements (Continued)

30 June 2012

## 26. NON-REDEEMABLE CONVERTIBLE PREFERRED SHARES

The Company allotted and issued 93,000,000 non-redeemable convertible preferred shares ("CPS") at HK$1.00 per CPS on 3 May 2011. The CPS recognised in the statement of financial position is calculated as follows:

| | RMB'000 |
|---|---|
| Fair value of non-redeemable CPS | **77,820** |
| Equity component of the CPS | **(69,801)** |
| Liability component of the CPS at the issuance date | **8,019** |
| Interest expenses | **164** |
| Liability component of the CPS as at 30 June 2011 | **8,183** |
| Interest expenses | **1,053** |
| Liability component of the CPS as at 30 June 2012 | **9,236** |

The Black-Scholes model is used to value the fair value of the CPS. The inputs into the model were as follows:

| | |
|---|---|
| Valuation date | 3 May 2011 |
| Share price | HK$0.32 |
| Exercise price | HK$0.30 |
| Risk-free rate | 0.169% |
| Expected volatility | 35.577% |
| Expected dividend yield | — |

The liability component represents the Group's contractual obligation of interest payment to the holders of CPS. For fair value of the liability component of the CPS at initial recognition, the effective rate method is adopted in the valuation. The effective interest rate used in the valuation is 12.867%.

# Notes to Financial Statements (Continued)

30 June 2012

## 27. DEFERRED TAX

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

### Deferred tax liabilities

**Group**

| | Pre-sale of properties RMB'000 | Withholding taxes RMB'000 | Fair value adjustment of properties RMB'000 | Revaluation of properties RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 July 2010 | (6,190) | 6,111 | 19,230 | — | 19,151 |
| Charged/(credited) to profit or loss during the year | 6,190 | (6,111) | (4,235) | — | (4,156) |
| At 30 June 2011 and 1 July 2011 | — | — | 14,995 | — | 14,995 |
| Charged/(credited) to profit or loss during the year | — | 1,931 | (2,706) | 61 | (714) |
| **At 30 June 2012** | **—** | **1,931** | **12,289** | **61** | **14,281** |

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

# Notes to Financial Statements (Continued)

30 June 2012

## 27. DEFERRED TAX (Continued)

### Deferred tax assets

**Group**

| | Provision for impairment of assets RMB'000 | Unused tax losses RMB'000 | Provision of land appreciation taxes RMB'000 | Accruals and other provision RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 July 2010 | 74,923 | 1,881 | 644 | 12,783 | 90,231 |
| Credited/(charged) to profit or loss during the year | (46,689) | (1,881) | — | (12,059) | (60,629) |
| At 30 June 2011 and 1 July 2011 | 28,234 | — | 644 | 724 | 29,602 |
| Credited/(charged) to profit or loss during the year | (28,234) | — | (334) | (71) | (28,639) |
| **At 30 June 2012** | **—** | **—** | **310** | **653** | **963** |

### Deferred tax assets not recognised

The Group had accumulated tax losses arising in Mainland China of RMB65,784,000 (2011: RMB70,827,000) in the current year which will expire from 2014 to 2016 for offsetting against future taxable profit. Deferred tax assets have not 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 tax losses can be utilised.

## 28. SHARE CAPITAL

### Shares

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Authorised: | | |
| 5,000,000,000 (2011: 5,000,000,000) ordinary shares of HK$0.10 each | **500,000** | 500,000 |
| 100,000,000 (2011: 100,000,000) convertible preferred shares of HK$1.00 each | **100,000** | 100,000 |
| | **600,000** | 600,000 |

# Notes to Financial Statements (Continued)

30 June 2012

## 28. SHARE CAPITAL (Continued)

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Issued and fully paid: | | |
| 1,513,797,000 (2011: 1,512,717,000) ordinary shares of HK$0.10 each | **142,239** | 142,152 |

During the year, the movements in share capital were as follows:

(a) On 4 June 2010, the Company issued convertible bonds with a total face value of HK$126,000,000 with a maturity date of 3 June 2013. The convertible bonds bear interest at 1% per annum and are unsecured.

The Company's early redemption option embedded in the convertible bonds is accounted for as a derivative financial instrument of RMB1,758,000 as at 30 June 2010.

On 28 June 2010, convertible bonds with a face value totalling HK$66,000,000 were converted into 235,714,000 ordinary shares of the Company. The related portion recognised in the convertible bonds reserve upon initial recognition and the carrying amounts of the liability component and the non-equity derivative component were transferred to the share capital of RMB20,735,000 and share premium account of RMB37,518,000, respectively.

In July 2010, convertible bonds with a face value totalling HK$60,000,000 were converted into 214,286,000 ordinary shares of the Company. The related portion recognised in the convertible bonds reserve of RMB15,016,000 upon initial recognition and the carrying amounts of the liability component of RMB39,295,000 and the non-equity derivative component of RMB1,758,000 were transferred to the share capital of RMB18,443,000 and share premium account of RMB33,195,000, respectively.

(b) The subscription rights attaching to 684,000 share options were exercised at the subscription price of HK$0.287 per share (note 29), resulting in the issue of 684,000 shares of HK$0.10 each for a total cash consideration, before expenses, of RMB167,000. An amount of RMB62,000 was transferred from the share option reserve to the share premium account upon exercise of the share options.

(c) In March 2012, the subscription rights attaching to 1,080,000 share options were exercised at the subscription price of HK$0.287 per share (note 29), resulting in the issue of 1,080,000 shares of HK$0.10 each for a total cash consideration, before expenses, of RMB252,000. An amount of RMB80,000 was transferred from the share option reserve to the share premium account upon exercise of the share options.

# Notes to Financial Statements (Continued)

30 June 2012

## 28. SHARE CAPITAL (Continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

| | Number of shares in issue | Issued capital RMB'000 | Share premium account RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 July 2010 | 1,297,747,000 | 123,651 | 342,184 | 465,835 |
| Issue of shares upon conversion of convertible bonds (a) | 214,286,000 | 18,443 | 33,195 | 51,638 |
| Share options exercised (b) | 684,000 | 58 | 109 | 167 |
| Transfer from share option reserve (b) | — | — | 62 | 62 |
| At 30 June 2011 and 1 July 2011 | 1,512,717,000 | 142,152 | 375,550 | 517,702 |
| Share options exercised (c) | 1,080,000 | 87 | 165 | 252 |
| Transfer from share option reserve (c) | — | — | 80 | 80 |
| **At 30 June 2012** | **1,513,797,000** | **142,239** | **375,795** | **518,034** |

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

# Notes to Financial Statements (Continued)

30 June 2012

## 29. SHARE OPTIONS

The Group has launched three lots of share options (the "Options") on 26 May 2010, 8 November 2010 and 11 May 2011, respectively, for the purpose of providing incentives and rewards to the eligible participants who contribute to the success of the Group's operations. Eligible participants of the Options include the Company's executive directors, employees and consultants.

The maximum number of unexercised share options currently permitted to be granted is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Options within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 7 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

# Notes to Financial Statements (Continued)

30 June 2012

## 29. SHARE OPTIONS (Continued)

Details of the three lots of share options granted during the year are as follows:

### (a) The first lot of share options

On 26 May 2010, 75,000,000 share options were granted to the eligible participants of the Group. The exercise price of the options is HK$0.287.

The share options are exercisable any time within five years starting from 26 May 2010 with no service conditions and performance conditions attached.

The exercise price of the share options is subject to adjustment in the case of conversion of statutory reserves into capital, split-up of shares, merging of shares, dividend distribution, or other similar changes in the Company's stock price.

The fair value of the first lot of equity-settled share options was estimated as at the date of grant using the Binomial Option Pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of options granted as at 30 June 2010 was estimated on the date of grant using the following assumptions:

| | **Options granted to directors** | **Options granted to employees and consultants** |
|---|---:|---:|
| Stock price | HK$0.285 | HK$0.285 |
| Exercise price | HK$0.287 | HK$0.287 |
| Expected volatility | 68.608% | 68.608% |
| Risk-free interest rate | 1.524% | 1.524% |
| Expected life | 5 years | 5 years |
| Sub-optional factor | 2.8 | 2.8 |
| Fair value per share | HK$0.1473 | HK$0.0916 |

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

# Notes to Financial Statements (Continued)

30 June 2012

## 29. SHARE OPTIONS (Continued)

### (b) The second lot of share options

On 8 November 2010, 31,200,000 share options were granted to the eligible participants of the Group. The exercise price of the options is HK$0.449.

The share options are exercisable any time within five years starting from 8 November 2010 with no service conditions and performance conditions attached.

The exercise price of the share options is subject to adjustment in the case of conversion of statutory reserves into capital, split-up of shares, merging of shares, dividend distribution, or other similar changes in the Company's stock price.

The fair value of the second lot of equity-settled share options was estimated as at the date of grant using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The fair value of options granted as at 30 June 2011 was estimated on the date of grant using the following assumptions:

| | |
|---|---|
| Stock price | HK$0.435 |
| Exercise price | HK$0.449 |
| Expected volatility | 91.434% |
| Risk-free interest rate | 0.454% |
| Expected life | 2.5 years |
| Fair value per share | HK$0.224 |

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

# Notes to Financial Statements (Continued)

30 June 2012

## 29. SHARE OPTIONS (Continued)

### (c) The third lot of share options

On 11 May 2011, 45,000,000 share options were granted to the eligible participants of the Group. The exercise price of the options is HK$0.306.

The share options are exercisable any time within five years starting from 11 May 2011 with no service conditions and performance conditions attached.

The exercise price of the share options is subject to adjustment in the case of conversion of statutory reserves into capital, split-up of shares, merging of shares, dividend distribution, or other similar changes in the Company's stock price.

The fair value of the third lot of equity-settled share options was estimated as at the date of grant using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The fair value of options granted as at 30 June 2011 was estimated on the date of grant using the following assumptions:

| | |
|---|---|
| Stock price | HK$0.305 |
| Exercise price | HK$0.306 |
| Expected volatility | 86.216% |
| Risk-free interest rate | 0.759% |
| Expected life | 2.5 years |
| Fair value per share | HK$0.151 |

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Movements in the first lot of share options for eligible participants during the year were as follows:

| | **Total number of share options outstanding during the year ended 30 June 2012** | **Weighted average exercise price per share (HK$)** | Total number of share options outstanding during the year ended 30 June 2011 | Weighted average exercise price per share (HK$) |
|---|---|---|---|---|
| Outstanding at beginning of year | **74,316,000** | **0.287** | 75,000,000 | 0.287 |
| Exercised during the year | **(1,080,000)** | **0.287** | (684,000) | 0.287 |
| Outstanding at end of year | **73,236,000** | **0.287** | 74,316,000 | 0.287 |
| Exercisable at end of year | **73,236,000** | | 74,316,000 | |

# Notes to Financial Statements (Continued)

30 June 2012

## 29. SHARE OPTIONS (Continued)

Movements in the second lot of share options for eligible participants during the year were as follows:

| | Total number of share options outstanding during the year ended 30 June 2012 | Weighted average exercise price per share (HK$) | Total number of share options outstanding during the year ended 30 June 2011 | Weighted average exercise price per share (HK$) |
|---|---|---|---|---|
| Outstanding at beginning of year | **31,200,000** | **0.449** | — | 0.449 |
| Granted during the year | **—** | | 31,200,000 | |
| Outstanding at end of year | **31,200,000** | **0.449** | 31,200,000 | 0.449 |
| Exercisable at end of year | **31,200,000** | | 31,200,000 | |

Movements in the third lot of share options for eligible participants during the year were as follows:

| | Total number of share options outstanding during the year ended 30 June 2012 | Weighted average exercise price per share (HK$) | Total number of share options outstanding during the year ended 30 June 2011 | Weighted average exercise price per share (HK$) |
|---|---|---|---|---|
| Outstanding at beginning of year | **45,000,000** | **0.306** | — | |
| Granted during the year | **—** | | 45,000,000 | 0.306 |
| Outstanding at end of year | **45,000,000** | **0.306** | 45,000,000 | 0.306 |
| Exercisable at end of year | **45,000,000** | | 45,000,000 | |

# Notes to Financial Statements (Continued)

30 June 2012

## 29. SHARE OPTIONS (Continued)

For the first, second and third lots of share options granted, share option expenses of nil were recognised during the year ended 30 June 2012 (2011: Nil, RMB6,011,000 and RMB5,664,000, respectively). The aggregate share option expense recognised in 2012 was nil (2011: RMB11,675,000).

The 1,080,000 share options exercised during the year resulted in the issue of 1,080,000 ordinary shares of the Company and new share capital of RMB87,000 (HK$108,000) and share premium of RMB165,000 (HK$201,960) (before issue expenses), as further detailed in note 28 to the financial statements.

At the end of the reporting periods, the Company had 149,436,000 (2011: 150,516,000) share options outstanding under the Options. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 149,436,000 (2011: 150,516,000) additional ordinary shares of the Company and additional share capital of RMB12,182,000 (HK$14,943,600) (2011: RMB12,517,000) and share premium of RMB27,598,000 (HK$33,853,932) (2011: RMB28,474,000) (before issue expenses).

Subsequent to the end of the reporting period, no share options were exercised.

At the date of approval of these financial statements, the Company had 149,436,000 share options outstanding under the Options, which represented approximately 9.87% of the Company's shares in issue as at that date.

## 30. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 38 to 39 of the financial statements.

In accordance with the PRC regulations, each of the PRC Subsidiaries is required to allocate 10% of its profit after tax, as determined under the PRC accounting regulations, to the statutory reserve until such reserve reaches 50% of its registered capital. Part of the statutory reserve may be used either to offset losses, or to be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

# Notes to Financial Statements (Continued)

30 June 2012

## 30. RESERVES (Continued)

### (b) Company

| | Notes | Issued capital RMB'000 | Share premium account RMB'000 (note (i)) | Share option reserve RMB'000 (note (ii)) | Non-redeemable convertible preferred shares RMB'000 | Warrants reserve RMB'000 (note (iii)) | Capital reserve RMB'000 | Capital contribution reserve RMB'000 (note (iv)) | Equity component of convertible bonds RMB'000 | Exchange fluctuation reserve RMB'000 | Accumulated losses RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 July 2010 | | 123,651 | 342,184 | 6,779 | — | — | 19 | 48,448 | 15,016 | (26,281) | (428,679) | 81,137 |
| Loss for the year | | — | — | — | — | — | — | — | — | — | (56,212) | (56,212) |
| Other comprehensive income for the year: Exchange differences on translation of foreign operations | | — | — | — | — | — | — | — | — | 2,894 | — | 2,894 |
| Total comprehensive loss for the year | | — | — | — | — | — | — | — | — | 2,894 | (56,212) | (53,318) |
| Acquisition of non-controlling interests | 26 | — | — | — | 69,801 | — | — | — | — | — | — | 69,801 |
| Issue of shares upon conversion of convertible bonds | 28(a) | 18,443 | 33,195 | — | — | — | — | — | (15,016) | — | — | 36,622 |
| Equity-settled share option arrangements | 29 | — | — | 11,675 | — | — | — | — | — | — | — | 11,675 |
| Exercise of share options | 28(b) | 58 | 109 | — | — | — | — | — | — | — | — | 167 |
| Transfer from share option reserve | 28(b) | — | 62 | (62) | — | — | — | — | — | — | — | — |
| Issue of warrants | 30(b)(iii) | — | — | — | — | 1,828 | — | — | — | — | — | 1,828 |
| At 30 June 2011 | | 142,152 | 375,550 | 18,392 | 69,801 | 1,828 | 19 | 48,448 | — | (23,387) | (484,891) | 147,912 |

| | Notes | Issued capital RMB'000 | Share premium account RMB'000 (note (i)) | Share option reserve RMB'000 (note (ii)) | Non-redeemable convertible preferred shares RMB'000 | Warrants reserve RMB'000 (note (iii)) | Capital reserve RMB'000 | Capital contribution reserve RMB'000 (note (iv)) | Exchange fluctuation reserve RMB'000 | Accumulated losses RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 July 2011 | | **142,152** | **375,550** | **18,392** | **69,801** | **1,828** | **19** | **48,448** | **(23,387)** | **(484,891)** | **147,912** |
| Loss for the year | | — | — | — | — | — | — | — | — | **(9,915)** | **(9,915)** |
| Other comprehensive income for the year: Exchange differences on translation of foreign operations | | — | — | — | — | — | — | — | **1,297** | — | **1,297** |
| Total comprehensive loss for the year | | — | — | — | — | — | — | — | **1,297** | **(9,915)** | **(8,618)** |
| Exercise of share options | 28(c) | **87** | **165** | — | — | — | — | — | — | — | **252** |
| Transfer from share option reserve | 28(c) | — | **80** | **(80)** | — | — | — | — | — | — | — |
| Issue of warrants | 30(b)(iii) | — | — | — | — | **814** | — | — | — | — | **814** |
| Transfer of warrants reserve upon the expiry of the warrants | 30(b)(iii) | — | — | — | — | **(1,828)** | — | — | — | **1,828** | — |
| **At 30 June 2012** | | **142,239** | **375,795** | **18,312** | **69,801** | **814** | **19** | **48,448** | **(22,090)** | **(492,978)** | **140,360** |

# Notes to Financial Statements (Continued)

30 June 2012

## 30. RESERVES (Continued)

### (b) Company (Continued)

Notes:

(i) Share premium account

Under the Companies Law (Revised) of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

(ii) Share option reserve

Share option reserve comprises the portion of the grant date fair value of unexercised share options granted under the share option scheme adopted by the Company.

(iii) Warrants reserve

The Company subscribed 105,000,000 and 107,400,000 warrants at an issue price of HK$0.01 per warrant with subscription prices of HK$0.425 and HK$0.5 per warrant, respectively, on 30 August and 18 November 2010. The total consideration of RMB1,828,000 received are added directly to the warrants reserve in equity in the prior year. As at 30 June 2012, the above warrants have expired, and the relevant warrants reserve was transferred to retained profits.

The Company subscribed 100,000,000 warrants at an issue price of HK$0.01 per warrant with a subscription price of HK$0.29 per warrant on 31 January 2012. The total consideration of RMB814,000 received was added directly to the warrants reserve in equity.

(iv) Capital contribution reserve

The capital contribution reserve represents the difference between the fair value of the interest-free financial assistance provided by the former shareholder of the Company initially recognised in the financial statements and the nominal amount of cash received/receivable by the Group.

# Notes to Financial Statements (Continued)

30 June 2012

## 31. DISPOSAL OF SUBSIDIARIES

| | Notes | 2012 RMB'000 |
|---|---|---|
| Net assets disposed of: | | |
| Property, plant and equipment | 13 | 103,121 |
| Prepaid land lease payment | 15 | 14,991 |
| Intangible assets | | 9 |
| Inventories | | 4,172 |
| Pledged deposit | | 5,000 |
| Cash and bank balances | | 86,960 |
| Trade and bills receivables | | 24,690 |
| Prepayments and other receivables | | 699 |
| Equity investments at fair value through profit or loss | | 300 |
| Trade payables | | (18,645) |
| Accruals and other payables | | (69,501) |
| Interest-bearing bank and other borrowings | | (138,000) |
| Due to a director | | (513) |
| | | 13,283 |
| Loss on disposal of subsidiaries | 6 | (12,057) |
| | | 1,226 |
| Satisfied by: | | |
| Cash | | 1,226 |

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

| | 2012 RMB'000 |
|---|---|
| Cash consideration | 1,226 |
| Cash and bank balances disposed of | (86,960) |
| Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries | (85,734) |

# Notes to Financial Statements (Continued)

30 June 2012

## 32. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Guarantees given to banks in connection with facilities granted to: | | | | |
| Disposed subsidiaries | **42,000** | — | — | — |

As at 30 June 2012, the banking facilities granted to disposed subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately RMB36,000,000 (2011: Nil).

## 33. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 25, to the financial statements.

## 34. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from two to six years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Within one year | **85** | 363 |
| In the second to fifth years, inclusive | **192** | — |
| After five years | **5** | — |
| | **282** | 363 |

# Notes to Financial Statements (Continued)

30 June 2012

## 34. OPERATING LEASE ARRANGEMENTS (Continued)

### (b) As lessee

The Group leases certain of its office premises under operating lease arrangements for lease teams ranging from one to three years. At 30 June 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within one year | **1,926** | 800 | **404** | 449 |
| In the second to fifth years, inclusive | **1,961** | 968 | **—** | 412 |
| | **3,887** | 1,768 | **404** | 861 |

## 35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following capital commitments at the end of the reporting period:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Contracted, but not provided for: | | |
| Buildings, plant and machinery | **—** | 1,621 |
| Authorised, but not contracted for: | | |
| Acquisition of equity investment | **82,000** | — |

As at 30 June 2012, the Group has authorised but not yet contracted for the acquisition of 51% equity interest in a gold mine company. For details, please refer to note 40.

# Notes to Financial Statements (Continued)

30 June 2012

## 36. RELATED PARTY TRANSACTIONS

### (a) Other transaction with related parties:

The Group entered into a lease agreement with Truroll Investment Limited, of which Mr. Hui Lung Hing, a substantial shareholder and an executive director of the Company, is the Chairman. Pursuant to the agreement, the Group agreed to pay a monthly rental of HK$45,000 in respect of the Group's occupation of Units 314–315, Wing On Plaza, 62 Mody Road, Tsimshatsui East, Kowloon, Hong Kong. During the year, the Company paid a total of HK$540,000 (RMB441,000) to Truroll Investment Limited.

### (b) Outstanding balances with related parties:

Details of the Group's amount due to the Company's director are included in note 24 to the financial statements.

### (c) Compensation of key management personnel of the Group:

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Short term employee benefits | **3,548** | 3,405 |
| Post-employment benefits | **40** | 33 |
| Equity-settled share option expense | **—** | 6,350 |
| Total compensation paid to key management personnel | **3,588** | 9,788 |

Further details of directors' emoluments are included in note 8 to the financial statements.

# Notes to Financial Statements (Continued)

30 June 2012

## 37. 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:

**2012**

**Group**

| | Financial assets at fair value through profit or loss RMB'000 | Loans and receivables RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Trade and bills receivables | — | 34,485 | 34,485 |
| Financial assets included in prepayments, deposits and other receivables | — | 16,738 | 16,738 |
| Equity investments at fair value through profit or loss | 494 | — | 494 |
| Pledged deposits | — | 10,735 | 10,735 |
| Cash and cash equivalents | — | 147,332 | 147,332 |
| | 494 | 209,290 | 209,784 |

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| **Financial liabilities** | |
| Trade and bills payables | 79,686 |
| Financial liabilities included in other payables and accruals | 49,135 |
| Due to a director | 582 |
| Interest-bearing bank and other borrowings | 166,397 |
| Non-redeemable convertible preferred shares | 9,236 |
| | 305,036 |

# Notes to Financial Statements (Continued)

30 June 2012

## 37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2011

Group

| | Financial assets at fair value through profit or loss RMB'000 | Loans and receivables RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Trade and bills receivables | — | 72,804 | 72,804 |
| Financial assets included in prepayments, deposits and other receivables | — | 6,063 | 6,063 |
| Equity investments at fair value through profit or loss | 570 | — | 570 |
| Pledged deposits | — | 9,786 | 9,786 |
| Cash and cash equivalents | — | 400,298 | 400,298 |
| | 570 | 488,951 | 489,521 |

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| **Financial liabilities** | |
| Trade and bills payables | 102,114 |
| Financial liabilities included in other payables and accruals | 27,765 |
| Due to a director | 2,267 |
| Interest-bearing bank and other borrowings | 323,000 |
| Non-redeemable convertible preferred shares | 8,183 |
| | 463,329 |

# Notes to Financial Statements (Continued)

30 June 2012

## 37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

**2012**

**Company**

| | Loans and receivables RMB'000 |
|---|---|
| **Financial assets** | |
| Financial assets included in prepayments, deposits and other receivables | 652 |
| Cash and cash equivalents | 1,255 |
| | 1,907 |

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| **Financial liabilities** | |
| Due to subsidiaries | 69,325 |
| Financial liabilities included in other payables and accruals | 450 |
| Due to a director | 408 |
| Interest-bearing bank and other borrowings | 4,239 |
| Non-redeemable convertible preferred shares | 9,236 |
| | 83,658 |

# Notes to Financial Statements (Continued)

30 June 2012

## 37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2011

Company

| | Loans and receivables RMB'000 |
|---|---|
| **Financial assets** | |
| Due from subsidiaries | 95,138 |
| Financial assets included in prepayments, deposits and other receivables | 745 |
| Cash and cash equivalents | 2,734 |
| | 98,617 |

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| **Financial liabilities** | |
| Due to subsidiaries | 162,822 |
| Financial liabilities included in other payables and accruals | 458 |
| Due to a director | 1,663 |
| Non-redeemable convertible preferred shares | 8,183 |
| | 173,126 |

# Notes to Financial Statements (Continued)

30 June 2012

## 38. FAIR VALUE AND FAIR VALUE HIERARCHY

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

**Group**

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Financial assets** | | | | |
| Trade and bills receivables | **34,485** | 72,804 | **34,485** | 72,804 |
| Financial assets included in prepayments, deposits and other receivables | **16,738** | 6,063 | **16,738** | 6,063 |
| Equity investments at fair value through profit or loss | **494** | 570 | **494** | 570 |
| Pledged deposits | **10,735** | 9,786 | **10,735** | 9,786 |
| Cash and cash equivalents | **147,332** | 400,298 | **147,332** | 400,298 |
| | **209,784** | 489,521 | **209,784** | 489,521 |
| **Financial liabilities** | | | | |
| Trade and bills payables | **79,686** | 102,114 | **79,686** | 102,114 |
| Financial liabilities included in other payables and accruals | **49,135** | 27,765 | **49,135** | 27,765 |
| Interest-bearing bank loans and other borrowings | **166,397** | 323,000 | **166,397** | 323,000 |
| Non-redeemable convertible preferred shares | **9,236** | 8,183 | **9,236** | 8,183 |
| Due to a director | **582** | 2,267 | **582** | 2,267 |
| | **305,036** | 463,329 | **305,036** | 463,329 |

# Notes to Financial Statements (Continued)

30 June 2012

## 38. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

### Company

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Financial assets** | | | | |
| Financial assets included in prepayments, deposits and other receivables | **652** | 745 | **652** | 745 |
| Due from subsidiaries | **—** | 95,138 | **—** | 95,138 |
| Cash and cash equivalents | **1,255** | 2,734 | **1,255** | 2,734 |
| | **1,907** | 98,617 | **1,907** | 98,617 |
| **Financial liabilities** | | | | |
| Due to subsidiaries | **69,325** | 162,822 | **69,325** | 162,822 |
| Financial liabilities included in other payables and accruals | **450** | 458 | **450** | 458 |
| Due to a director | **408** | 1,663 | **408** | 1,663 |
| Interest-bearing bank and other borrowings | **4,239** | — | **4,239** | — |
| Non-redeemable convertible preferred shares | **9,236** | 8,183 | **9,236** | 8,183 |
| | **83,658** | 173,126 | **83,658** | 173,126 |

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

The fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/(to) subsidiaries, an amount due to a director approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the liability portion of the non-redeemable convertible preferred shares is estimated using an equivalent market interest rate for similar convertible debts.

# Notes to Financial Statements (Continued)

30 June 2012

## 38. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

The fair values of equity investments are based on quoted market prices. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair value of the early redemption option embedded in the convertible bonds is estimated using the Binomial Lattice model.

### 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 any 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 30 June 2012

| | **Level 1 RMB'000** | **Level 2 RMB'000** | **Level 3 RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| Equity investments at fair value through profit or loss | **494** | **—** | **—** | **494** |

As at 30 June 2011

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Equity investments at fair value through profit or loss | 570 | — | — | 570 |

The Company did not have any financial assets measured at fair value as at 30 June 2012 and 2011.

During the year, there were no transfers of fair value measurements between Level 1 and Level 3 and no transfers into or out of Level 2 (2011: Nil).

# Notes to Financial Statements (Continued)

30 June 2012

## 38. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

### Liabilities measured at fair value:

The Group and the Company did not have any financial liabilities measured at fair value as at 30 June 2012 and 2011.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, non-redeemable convertible preferred shares, other interest-bearing 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, trade and bills payables, which arise directly from its operations.

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's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 25.

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

| | Group | |
|---|---|---|
| | Increase/(decrease) in basis points | Increase/(decrease) in profit before tax RMB'000 |
| **2012** | | |
| Renminbi | **100** | **(1,622)** |
| Renminbi | **(100)** | **1,622** |
| 2011 | | |
| Renminbi | 100 | (330) |
| Renminbi | (100) | 330 |

# Notes to Financial Statements (Continued)

30 June 2012

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Foreign currency risk

The Group's exposure to foreign exchange risk arises from export sales, primarily with those settled in United States dollars. Approximately 12% (2011: 16%) of the Group's sales were denominated in United States dollars.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| | Group | |
|---|---|---|
| | Increase/ (decrease) in the United States dollar rate | Increase/ (decrease) in profit before tax |
| | % | RMB'000 |
| **2012** | | |
| If Renminbi weakens against the United States dollar | **10** | **1,196** |
| If Renminbi strengthens against the United States dollar | **(10)** | **(1,196)** |
| 2011 | | |
| If Renminbi weakens against the United States dollar | 10 | 917 |
| If Renminbi strengthens against the United States dollar | (10) | (917) |

### Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customers. At the end of the reporting period, the Group had certain concentrations of credit risk as 51% (2011: 34%) of the Group's trade receivables were due from the Group's five largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in note 18 and note 19 to the financial statements.

# Notes to Financial Statements (Continued)

30 June 2012

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

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

**Group**

| | 2012 | | |
|---|---|---|---|
| | On demand and less than 12 months RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
| Interest-bearing bank and other borrowings | 111,667 | 65,428 | 177,095 |
| Trade and bills payables | 79,686 | — | 79,686 |
| Financial liabilities included in other payables and accruals | 49,135 | — | 49,135 |
| Due to a director | 582 | — | 582 |
| | 241,070 | 65,428 | 306,498 |

| | 2011 | | |
|---|---|---|---|
| | On demand and less than 12 months RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
| Interest-bearing bank and other borrowings | 302,882 | 34,853 | 337,735 |
| Trade and bills payables | 102,114 | — | 102,114 |
| Financial liabilities included in other payables and accruals | 27,765 | — | 27,765 |
| Due to a director | 2,267 | — | 2,267 |
| | 435,028 | 34,853 | 469,881 |

# Notes to Financial Statements (Continued)

30 June 2012

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risk (Continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

**Company**

| | 2012 On demand and less than 12 months RMB'000 |
|---|---|
| Interest-bearing bank and other borrowings | **4,349** |
| Financial liabilities included in other payables and accruals | **450** |
| Due to subsidiaries | **69,325** |
| Due to a director | **408** |
| | **74,532** |

| | 2011 On demand and less than 12 months RMB'000 |
|---|---|
| Financial liabilities included in other payables and accruals | 458 |
| Due to subsidiaries | 162,822 |
| Due to a director | 1,663 |
| | 164,943 |

### 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 30 June 2012 and 2011.

# Notes to Financial Statements (Continued)

30 June 2012

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes interest-bearing bank and other borrowings, an amount due to a director, trade and bills payables, other payables and accruals, less cash and cash equivalents. Capital includes non-redeemable convertible preferred shares and equity attributable to owners of the Company. The gearing ratios as at the end of the reporting periods were as follows:

**Group**

| | **2012**<br>**RMB'000** | 2011<br>RMB'000 |
|---|---|---|
| Interest-bearing bank and other borrowings | **166,397** | 323,000 |
| Trade and bills payables | **79,686** | 102,114 |
| Other payables and accruals | **80,512** | 139,116 |
| Due to a director | **582** | 2,267 |
| Less: Cash and cash equivalents | **(147,332)** | (400,298) |
| Net debt | **179,845** | 166,199 |
| Non-redeemable convertible preferred shares, the liability component | **9,236** | 8,183 |
| Equity attributable to owners of the Company | **154,132** | 357,041 |
| Adjusted capital | **163,368** | 365,224 |
| Capital and net debt | **343,213** | 531,423 |
| Gearing ratio | **52%** | 31% |

## 40. EVENTS AFTER THE REPORTING PERIOD

On 4 July 2012, the Group entered into a sale and purchase agreement with an independent third party to acquire a 51% equity interest in Commerce Prosper Limited, which is the sole legal and beneficial owner of Zolotoy Standart Limited, a limited liability company established under the laws of the Russian Federation, which holds exploration and exploitation permit of a Gold Mine. The Group acquired the equity interest in Commerce Prosper Limited to enter the mining industry and diversify the business operation of the Group. The purchase consideration of US$13 million for the acquisition was in the form of cash and the issuance of a convertible note amounting to RMB72 million and RMB10 million, respectively.

## 41. COMPARATIVE AMOUNTS

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

## 42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 September 2012.

# Financial Summary

| | 2012 RMB'000 | 2011 RMB'000 | 2010 RMB'000 | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|---|---|
| | | Years ended 30 June | | | |
| **RESULTS** | | | | | |
| Revenue | **297,987** | 354,577 | 264,213 | 316,940 | 564,317 |
| (Loss)/profit from operations | **(148,680)** | (147,417) | (291,589) | (383,655) | 117,603 |
| Finance costs | **(19,387)** | (19,118) | (10,376) | (19,866) | (81,833) |
| (Loss)/profit from ordinary activities before taxation | **(168,067)** | (166,535) | (301,965) | (403,521) | 35,770 |
| Taxation | **(36,524)** | (63,824) | 32,903 | 43,319 | (24,591) |
| (Loss)/profit from ordinary activities after taxation | **(204,591)** | (230,359) | (269,062) | (360,202) | 11,179 |
| Attributable to: | | | | | |
| Ordinary equity holders of the Company | **(204,591)** | (229,653) | (268,698) | (360,202) | 11,179 |
| Non-controlling interests | **—** | (706) | (364) | — | — |
| | **(204,591)** | (230,359) | (269,062) | (360,202) | 11,179 |
| Dividends | **—** | — | — | — | 1,977 |
| **ASSETS AND LIABILITIES** | | | | | |
| Property, plant and equipment | **64,611** | 161,799 | 124,682 | 290,472 | 390,299 |
| Other non-current assets | **5,012** | 46,874 | 108,208 | 85,473 | 46,111 |
| Net current assets | **170,826** | 204,546 | 392,081 | 281,381 | 542,889 |
| Total assets less current liabilities | **240,449** | 413,219 | 624,971 | 657,326 | 979,299 |
| Other non-current liabilities | **(86,317)** | (56,178) | (83,973) | (22,861) | (53,166) |
| | **154,132** | 357,041 | 540,998 | 634,465 | 926,133 |
| **EQUITY** | | | | | |
| Share capital | **142,239** | 142,152 | 123,651 | 58,661 | 58,661 |
| Equity component of convertible bonds | **—** | — | 15,016 | — | — |
| Non-redeemable convertible preferred shares | **69,801** | 69,801 | — | — | — |
| Reserves | **(57,908)** | 145,088 | 380,843 | 575,804 | 867,472 |
| Non-controlling interests | **—** | — | 21,488 | — | — |
| | **154,132** | 357,041 | 540,998 | 634,465 | 926,133 |
| (Loss)/earnings per share | | | | | |
| — basic | **RMB(14) cents** | RMB(15) cents | RMB(34) cents | RMB(64) cents | RMB2 cents |
| — diluted | **RMB(14) cents** | RMB(15) cents | RMB(34) cents | RMB(64) cents | RMB2 cents |