CHINA HOUSEHOLD HOLDINGS LIMITED
中國家居控股有限公司

(Formerly known as Bao Yuan Holdings Limited)
(Incorporated in Bermuda with limited liability)
(Stock Code: 692)

2012
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive directors:

Mr. Wong Man Pan
(appointed as Chairman on 1 February 2013)
Mr. Yim Hin Keung *(resigned on 28 September 2012)*
Mr. Tsang King Sun
Mr. Fu Zhenjun *(appointed on 23 March 2012)*
Mr. Yiu Kwok Ming, Tommy
(re-designated as non-executive director on 3 January 2012)
Ms. Tsui Kwok Yin, Czarina
(appointed on 21 September 2012)
Mr. Kuang Yuanwei *(appointed on 1 February 2013)*

Non-executive director:

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

Independent non-executive directors:

Mr. Liang Jin An
Mr. Ng Lok Kei
Mr. Chan Hon Yuen
Mr. To Yan Ming, Edmond
(appointed on 24 April 2012)
Mr. Kaneko Hiroshi *(appointed on 5 November 2012)*

COMPANY SECRETARY

Mr. Tsang King Sun

SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

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

PRINCIPAL BANKERS

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

LEGAL ADVISORS

King and Wood Mallesons
Angela Ho & Associates
W.K. To & Co.

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite no. 1001B, 10/F., Tower 1
China Hong Kong City,
33 Canton Road,
Tsim Sha Tsui,
Hong Kong

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

To Shareholders,

On behalf of the board of directors of the Company, I hereby present the annual report for the year ended 31 December 2012.

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

FINANCIAL RESULTS

Following two years of anemic and uneven recovery from the global financial crisis, the world economy is teetering on the brink of another major downturn. The sovereign debt crisis in Europe and policy uncertainty in the U.S. have constrained investment and hiring, causing subsequent declines in the demand for manufactured goods from developing nations, most notably China.

During the year under review, the Group has recognised a loss attributable to the owners of the Company of HK$16.4 million, as compared with a net loss of approximately HK$198.7 million in last year. The loss per share for the year ended 31 December 2012 was HK$0.014. Such decrease in net loss was mainly due to an increase in other income, gain on early redemption of convertible bonds and waiver of other payables.

The Group turnover was HK$17.3 million, representing a 33% decrease over the corresponding figure of HK25.7 million in the last year. The decrease was primarily inflecting in lower averaging selling price and sales volume, revenue from the production and sales of garment due to the difficult economic environment in Europe caused by factors including concern over default of European debts has led to lower consumer confidence and demand for textile products. In addition, the management adopted a prudent approach in accepting sale order to prevent bad debt during the year. Nevertheless, the gross profit has remained stable and the bad debt ratio was relatively low throughout the year. However, the Group has undergone re-positioning of sales and marketing efforts and strategies to fully capture macro market opportunities.

Distribution costs included costs related to sales and marketing functions of the Group and were normally varied proportionally with the revenue. A drop in Group's revenue by 33% but an obviously drop in distribution costs by 65% was attributed to the Group's effective cost control measures. Administrative expenses generally included costs related to the supporting functions of the Group. During the year under review, the administrative expenses increased by 63% to approximately HK$56.7 million. The level of total operating expenses increased in mainly reflecting additional legal and professional fees incurred for the acquisition of the technology business and household and furniture business and increase in total staff benefits paid to the Directors and administrative staff due to the development the fashion business expansion.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

In 2010, the Group issued convertible bonds in a principal amount of HK$1,680 million as the consideration for the acquisition of an iron and titanium dioxide mine. On 10 October 2012, the Group redeemed the entire outstanding principal amount of the convertible bonds by way of issuing the promissory note. The principal amount of the promissory note is in the sum of 80% of the outstanding principal amount of the convertible bonds as full and complete settlement of the entire outstanding principal amount under the convertible bonds. The principal amount of the promissory note is approximately HK$173.7 million. The Group considered that the redemption of the convertible bonds by issuing of the promissory note would enhance a better financial position.

REVIEW OF OPERATION

Sale of Fabrics, Garments and Accessories

For Year 2012, buffeted by financial turbulence, the global economic recovery was progressed slowly and erratically. The ongoing European sovereign debt crises have seriously dampened customer's confidence. The economic woes and unfavorable consumer sentiment have adversely affected the apparel industry as retain customers are also more closely watching their budgets. Against the backdrop, the Group experienced severe deterioration in US sales orders during 2012. The turnover of the Group plummeted by 73% to HK$6.4 million for the year ended 31 December 2012 compare with last year.

Mining Business

During the year under review, the application for the PRC approval of the Mine is still in progress and the Group did not have any operation in the mining business. Meanwhile, the Group has submitted the application for the license to the relevant authorities in order to commence the production in the upcoming future. The directors decided to postpone the mining plan and the Group expected all the required licences and approvals will be obtained by Year 2014.

During the year under review, the mining business recorded a loss of HK$3 million.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

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

Resources and Reserves of the iron ("TFe") and titanium doxide ("TiO2") mines under the JORC Code

(a) Resource summary (includes reserves)

	Tonnage	Grades		Contained metals	
	(Mt)	TFe (%)	TiO_2 (%)	TFe (Kt)	TiO_2 (Kt)
Taoyuan area					
Measured and indicated	40.7	29.4	13.9	11,966	5,657
Inferred	18.2	29.9	13.6	5,442	2,475
Dazuomugou area					
Measured and indicated	9.9	29.5	13.0	2,920	1,287
Inferred	11.1	29.1	13.9	3,230	1,543

(b) Reserve summary

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

There has been no material change in the estimated coal reserves and resources of the Group's iron and titanium dioxide mines prepared by Dragon Mining Consulting Limited as of 31 December 2012, and the estimated iron and titanium dioxide as of 31 December 2012 and set out in the table above.

Fashion design

Because of the globalization effect, fashion business cannot be immune from the dim economic atmosphere worldwide. The economic growth has decelerated and it consequently has weakened the consumer demand. Coupled with the keen competition from both the renowned foreign and local brand, the business condition became particularly thorny. The overall sales performance was attributable to decline in retail turnover amid challenging operation environment.

Hence, the Group has recorded a loss of HK$8.9 million, which was mainly attributable to the administrative expenses.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

Trading in securities

Even the stock market in Hong Kong remained weak and fluctuated due to the economic downturn in United States and triggered by the unresolved European debt issue, the Group's securities portfolio provided a revenue stream in 2012.

During the year under review, the Group has recorded a profit of HK$1.7 million on trading of securities and recorded an unrealized loss of HK$14.5 million.

Money lending business

The money lending business segment generated interest income of HK$5.3 million for the year ended 31 December 2012, representing a 502% increase over the corresponding figure of HK$0.88 million in the last year.

The market has also become aware of the Group's loan products and services and more customers have approached the Group for financing services during the year under review which increase business opportunities of the Group. In the meantime, the Group shall endeavor to expand its loan portfolio by broadening customer and revenue bases according to the prevailing market conditions and observed our different customers' financial needs.

Information and technologies business

On 3 September 2012, the Group acquired an information technology solution provider in order to broaden the income base of the Group and diversify its business risk.

During the year under review, the technological innovative business recorded a loss of HK$3.6 million, which was mainly attributable to the administrative expenses and finance costs.

On 26 March 2013, the Company and its wholly-owned subsidiary, Sky Treasure Worldwide Limited ("Purchaser"), entered into the Deed of Variation with Union Prosper Limited ("Vendor") to amend certain terms of the Share Purchase Agreement as supplemented and varied by a Supplemental Share Purchase Agreement, 2nd Supplemental Share Purchase Agreement, 3rd Supplemental Share Purchase Agreement, 4th Supplemental Share Purchase Agreement, 5th Supplemental Share Purchase Agreement and 6th Supplemental Share Purchase Agreement, the Purchaser has acquired from the Vendor the entire issued share capital and entire outstanding shareholders' loan of the Target Company at the consideration of HK$398,000,000. The Consideration was agreed between the parties by reference to the valuation report on the Target Company dated 25 June 2012 prepared by Jones Lang LaSalle (the "Valuation Report") for the Company and was agreed to be satisfied by the Purchaser to the Vendor, by amongst other things, the issuance of a promissory note for HK$228,000,000 with three years maturity by the Purchaser in favour of the Vendor. Pursuant to the Deed of Variation, amongst others, it is agreed that the Vendor agrees with the Purchaser that for the financial years ended 31 December 2012 and 31 December 2013, it shall be deducted from the principal amount of the Promissory Note such amounts as representing the shortfall in the actual revenue generated by the Target Group for the financial year ended 31 December 2012 and 31 December 2013 compared with the revenue of the Target Group forecasted in the Valuation Report for the financial year ended 31 December 2012 of RMB11,872,000 and for the financial year ended 31 December 2013 of RMB44,212,000.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

Prospect and Outlook

The market conditions of sales of fabrics, garments and accessories are expected to remain uncertain as the industry faces several challenges, including slow recovery of global economy, the European sovereign debt crises and keen market competition. The adverse macro environments may continue to affect customer's confidence and hence lower demand for textile products. The US and European customers still remain cost conscious. Price competition remains in the market and revenue of this segment have deteriorated continuously. Hence, the expected revenue from this segment remains conservative due to the constant severe challenges in the industry. The Group will diversify the customer bases and continue its conservative strategy by deploying its financial resources only in high profit margin orders, sourcing quality dyed fabrics and adopting stringent cost control measures will become imperative direction for this segment.

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

According to the report from the China Iron and Steel Association, despite the government's tightened property market control measures, enterprises in the construction and real estate sector still managed to secure steady development. Hence, the Group will keep abreast of changing market conditions and will adjust its business strategies to come up with opportunities of mining business.

The financing needs of SMEs create immense demand for the Group's money lending service. As such, the Group is positive about the outlook of this business. The Group will continue to provide relevant financial solutions to those niche markets that remain cut off from bank financing. In the future, the Group will keep looking for investment opportunities to further expand its service and will also focus on risk management. By balancing its risk exposure and allocating resources effectively, the Group is confident that this practice will enable it to be responsive to market change and needs and to enjoy revenue growth.

The Group has entered into the new business segment of information and technologies business through acquisition of a subsidiary during the second half of 2012. The new business mainly involves the provision of telecommunication and information technology services and the sales of the related products, especially focuses on interactive kiosks. Interactive kiosks are innovative systems and intelligent products which support retailers in enhancing customers' in-store shopping experience via provision of unique and tailor-made product to satisfy individual retailers' needs, hence boosting revenue of retailers. The Group believes there is a huge market potential of business-to-business transactions as the interactive kiosks impress customers' in-store shopping experience. In addition, cross selling would induce to the Group's other business such as retail business of the Group by leveraging the technology of the new business. In 2013, the innovative business will start to make a full year contribution to the Group's operation.

The Group promised to pursue its existing businesses and at the same time, actively pursue other opportunistic investments in PRC. During 2012, the Group has proactively seek other potential investment opportunities and considered the PRC total home furnishing solution is promising. Along with the growth of the PRC economy and the rising disposable income of the PRC consumers, living standard of the PRC consumers has generally

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

improved. Therefore, it is expected that there will be more home fitting-out, decoration and upgrade activities in the PRC with replacement of old household products with new products of better style, design, quality and features. This trends in the PRC home fitting-out and decoration market will in turn drive in demand of total home furnishing solutions which will save customer's time and cost in obtaining stylish and personalized home furnishing, design services, products and home fitting out works. Therefore, the Group has entered into new business segment of household through acquisition of a subsidiary on 3 January 2013. The new business is principally engaged trading of furniture and provision of interior design services. The Group believes that the new business segment is in line with the Group's business diversification strategy and represents as attractive investment opportunity to tap into PRC total home furnishing solutions market with growth potential and to generate diversified income and addition cashflow. Upon the completion, the Group issued a promissory note with 3 years maturity in a principal amount of HK$60 million as consideration. However, the Group was offered to have a 3 years profit guarantee and adjustment mechanism for the consideration in the event of non-performance of the profit of this new business segment.

Liquidity and Financial Resources

At 31 December 2012, the Group had total assets of HK$2,000.2 million which were financed by total liabilities of HK$333.4 million and equity of HK$1,666.7 million. Accordingly, the Group's ratio of debts to total assets and debts to equity are 16.7% (2011: 19.3%) and 20.0% (2011: 24.0%), respectively.

The Group generally financed its operation by internal cash resources, bank financing and several fund raising activities, including placing of new shares and open offer. At 31 December 2012, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK$17.5 million (of which about HK$6.2 million was pledged with banks for banking facilities for the Group) and unutilised trade finance banking facilities for a total of about HK$47.5 million, which we consider sufficient for normal daily operation and expansion in 2013.

CAPITAL STRUCTURE

Placing

The garment business is facing a downturn due to the weak economic conditions in Europe and the United States. For the retail fashion and money lending business, it is still at beginning stage and cannot generate sufficient income to support the Group. Hence the Company required raising working capital by mean of Placing.

On 7 March 2012, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a fully underwritten basis, a total of 80,980,000 placing share to not less than 6 independent placees at a price of HK$0.20 per placing share. The aggregate nominal value of the placing shares under the placing agreement was approximately HK$81,000. The net proceeds from the placement of approximately HK$7.34 million was applied to pay the interest expenses of the convertible bonds and approximately HK$3.30 million was applied as general working capital of the Group and the remaining net proceeds amounted to approximately HK$4.97 million which will be used for general working capital of the Group.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

Open offer

On 10 May 2012, the Company proposed to raise approximately HK$204 million, before expenses, by issuing 1,700,726,454 Offer Shares at the subscription price of HK$0.12 per Offer Share on the basis of seven Offer Shares for every two Shares held by the Qualifying Shareholders on the 10 July 2012 and payable in full on acceptance. The company intends to apply such net proceeds from the Open Offer as to HK$100 million for the early redemption of the Convertible Bonds, approximately HK$40 million for cash settlement instead of issue of the Promissory Note in the same amount of the consideration in relation to the acquisition of m3, as to HK$20 million for the development of the money lending business and approximately HK$36 million for the working capital of the Group.

On 10 October 2012, the board of directors passed a resolution to change the usage of cash amounting to HK$20 million for the development of the money lending to partial repay the principal and accrued interest of the Group's convertible bonds as requested by the bondholder.

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

PLEDGE OF ASSETS

At 31 December 2012, the Group's bank deposits of approximately HK$6.2 million were pledged with banks for banking facilities of the Group.

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

At 31 December 2012, the Group employed about 53 employees including sales and merchandising, accounting and administrative staff in Hong Kong and the PRC. The total staff costs and directors' remuneration for the year were approximately HK$15 million. Employees are remunerated based on market and industry practice. The remuneration policy and package of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

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

In the early of September 2011, the Group entered a sale and purchase agreement to acquire the entire issued share capital of m3 Technology Development Limited ("m3") at a consideration of HK$398 million. The deal was completed on 3 September 2012. Upon the completion, the Group issued convertible bonds in a principal amount of HK$50 million and promissory notes in a principal amount of HK$228 million as part of the consideration. m3 is principally engaged in the supply of telecommunication and information technology services and sales of related products. The business overview for the technology industry has also been considered favorable. The Group viewed this as providing the opportunity for the Group to penetrate the technology industry and to diversify its existing business.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

In the middle of October 2012, the Group entered into the sale and purchase agreement to acquire the entire issued share capital of Chang Ye Holdings Limited ("Chang Ye") at a consideration of HK$60 million. The deal was completed on 3 January 2013. Upon the completion, the Group issued promissory notes in a principal amount of HK$60 million as consideration. The Group believes this is an attractive opportunity to step into PRC total home furnishing solutions market. Apart from diversifying the business portfolio of the Group, the acquisition will also provide synergy to the Group's existing business.

APPRECIATION

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

Wong Man Pan
Chairman

Hong Kong, 26 March 2013, except as to note 38(d), which is as of 23 April 2013

PROFILE OF THE MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wong Man Pan, aged 32, was appointed as an executive director on 6 October 2010. Mr. Wong was appointed as the chairman of the Company on 1 February 2013. He holds Master and Bachelor's (Hons) degree in Mechanical Engineering from The Hong Kong Polytechnic University. Mr. Wong has concrete knowledge and experience in project management and strategic planning in the manufacturing sector over 8 years.

Mr. Tsang King Sun, aged 29, was appointed as executive director and company secretary of the Company on 18 July 2011. He is a member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Business Administration (Hons) degree in Accounting from The Hong Kong Polytechnic University. He had worked at Big Four International Accounting Firms and gained extensive experience in accounting, auditing practices and financial management. He had experience in auditing various listed companies and experience in various due diligence projects.

Mr. Fu Zhenjun, aged 43, was appointed as executive director on 23 March 2012. He is responsible for the business development of the Group. He has over 20 years of experience in sales and marketing. He has deep connection and relationship with people engaged in this aspect. Prior to joining the Group, he provided Enterprise Process Management services to some well-known PRC enterprises. He does not hold any position with the Company and its subsidiaries, nor has he held any directorship in any listed public companies in the past three years.

Ms. Tsui Kwok Yin, Czarina, aged 37, was appointed as executive director on 21 September 2012. She has extensive experience in an international trading business. Prior to joining the Group, she assumed a management role in a trading company. Ms. Tsui holds a Bachelor of Arts degree major in Administrative and Commercial Studies from University of Western Ontario, Canada. Ms. Tsui does not hold any other position with the Company and its subsidiaries, nor has she held any directorship in any listed public companies in the past three years.

Mr. Kuang Yuanwei, aged 50, was appointed as executive director on 1 February 2013. He has over 20 years of experience in commercial banking industries and has held various senior positions in the banking industry prior joining the Group. Mr. Kuang has strong social networks and has established deep connections with people engaged in home furnishing industry.

NON-EXECUTIVE DIRECTOR

Mr. Yiu Kwok Ming, Tommy, aged 51, was appointed as the Vice-Chairman and the Managing Director of the Company on 18 August 1999. Mr. Yiu was re-designated from the executive director and managing director to a non-executive director on 3 January 2012. Mr. Yiu has extensive experience in the textile and dyeing industries in Hong Kong and the PRC. He holds a bachelor degree in accounting from San Francisco State University of California. Prior to joining the Group in 1987, he worked for Exxon Corporation, a listed company in the United States, in its accounting and administration division.

PROFILE OF THE MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liang Jin An, aged 46, was appointed as an independent non-executive director on 25 July 2007. He has over 21 years of experience in finance, general management and property development in the PRC. He is currently a vice president and vice general manager of a privately-owned cosmetics manufacturing company in Guangzhou, the PRC. He was previously the financial controller and vice general manager of a well established property developer in Guangzhou from 1997 to 2005.

Mr. Chan Hon Yuen, aged 32, was appointed as an independent non-executive director on 30 June 2011. He holds a bachelor's degree in accountancy from The Hong Kong Polytechnic University. Mr. Chan has extensive experiences in auditing, accounting and financial management. Mr. Chan previously worked as an Assistant Accounting Manager in a listed multinational construction and engineering group, and also worked at one of the Big Four International Accounting Firms and involved in various listed company audit engagements. Mr. Chan is a fellow of the Association Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. Mr. Chan is currently an independent non-executive director of CNC Holdings Limited, which is Company whose shares are listed on GEM Board of the Hong Kong Stock Exchange.

Mr. Ng Lok Kei, aged 32, was appointed as an independent non-executive director on 10 June 2011. He has served in an international trading company, which business areas includes electronics, fabrics, garments and toys trading. Mr. Ng is responsible for oversea markets development and business operations. Mr. Ng also worked in AIA Insurance to sell investment funds, and he also worked in a large property development company as an investment advisers, responsible for China and Hong Kong business strategy planning, including the sales of land, acquisition of old buildings and shopping malls. Before Mr. Ng joined the Group, he worked in a foreign financial company, he was responsible for corporate strategy planning, and searching for investment opportunities in mining, media and property areas, to diversify sources of income and to increase the competitiveness of the company. Mr. Ng has over ten years of experience in international trading and financial investment. He is specializing in cost control, marketing strategies, and financial management.

Mr. Kaneko Hiroshi, aged 48, was appointed as an independent non-executive director on 5 November 2012. He holds a Master of Engineering degree from Dalian University of Technology, PhD programs in Fudan University and doctoral degree of the apex science and technology from University of Tokyo. Mr. Kaneko has extensive research experience in the field of environment, development and economic science. He has been engaged in comprehensive utilization of environmental friendly materials and international trade for number of years.

Mr. To Yan Ming, Edmond, aged 41, was appointed as an independent non-executive director on 24 April 2012. He holds a bachelor degree in Commerce in Accounting From Curtin University of Technology in Western Australia. Mr. To is a Certified Public Accountant practicing in Hong Kong and a director of Edmond To CPA Limited, Zhonglei (HK) CPA Company Limited and RCW (HK) CPA Limited. Mr. To is a member of both the CPA Australia and Hong Kong Institute of Certified Public Accountants. Mr. To worked for one of the international accounting firms, Deloitte Touche Tohmatsu and has over 10 years of experience in auditing, accounting, floatation and taxation matters. Mr. To is currently an independent non-executive director of China Vanguard Group Limited, which is a company whose shares are listed on the GEM Board of the Hong Kong Stock Exchange. Mr. To is also an independent non-executive director of BEP International Holdings Limited, Theme International Holdings Limited and Wai Chun Group Holdings Limited whose shares are listed on the main board of the Hong Kong Stock Exchange.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

For the year under review, the Company has complied with all the applicable code provisions in the Code on Corporate Governance Practices (effective up to 31 March 2012) and the CG Code (effective from 1 April 2012) as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2012, except for the deviation as disclosed in this annual report.

DEVIATION FROM CG PRACTICES/CG CODE

In respect of code provision A.6.7 of the CG Code, Mr. Liang Jin An, Mr. Ng Lok Kei, Mr. Chan Hon Yuen and Mr. To Yan Ming, Edmond (Note 5), the non-executive Directors, were unable to attend the annual general meeting of the Company held on 6 June 2012 (the "AGM") due to other crucial business commitment.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The Board, currently comprises five executive directors, namely Mr. Wong Man Pan (chairman), Mr. Tsang King Sun, Mr. Kuang Yuanwei (Note 4), Mr. Fu Zhenjun (Note 2) and Ms. Tsui Kwok Yin, Czarina (Note 3) and one non-executive director, namely Mr. Yiu Kwok Ming, Tommy, and five independent non-executive directors, namely Mr. Chan Hon Yuen, Mr. Ng Lok Kei, Mr. To Yan Ming, Edmond (Note 5), Mr. Kaneko Hiroshi (Note 6) and Mr. Liang Jin An. The independent non-executive directors are all experienced individuals from a range of industries. Their mix of skills and experience is an important element in the proper functioning of the board and in ensuring a high standard of objective debate and overall input to the decision-making process. The independent non-executive directors may seek for professional advice at the Company's expenses in carrying out their functions. Pursuant to the Listing Rules, every independent non-executive director has confirmed his independence with the Stock Exchange and provided an annual confirmation of his independence to the Company. The biographical details of all directors and their family relationship, if any, are provided on pages 11 to 12 of this annual report. The Board had arranged insurance cover for their directors.

CORPORATE GOVERNANCE REPORT

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

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

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

During the year, with the support of the Company Secretary, the Directors have participated in continuous professional development to develop and refresh their knowledge and skills. Newly appointed Directors received external induction training on relevant compliance and regulatory matters for directors of companies listed in Hong Kong and legal, corporate governance and best practice matters before their respective appointment became effective. All Directors received updates on the same matters, as well as updates on the industries and the markets the Group operates in and significant changes in financial accounting standards,all of which were presented at one of the Board meetings during the year. Relevant training courses and reading materials were also identified by the Company during the year and records of the training that the Directors received have been provided to the Company Secretary.

CORPORATE GOVERNANCE REPORT

Forty-two plenary board meetings, one annual general meeting and three special general meeting were held during the year. Meeting agenda were settled by the Chairman to ensure adequate coverage of financial, strategic and major risk areas throughout the year. The attendance of directors at the meetings was as follows:

Members	Number of Board meetings attended/held	Number of Annual general meeting attended/held	Number of Special general meeting attended/held
Executive directors			
Mr. Wong Man Pan	42/42	1/1	3/3
Mr. Yim Hin Keung *(Note 1)*	31/35	0/1	1/3
Mr. Tsang King Sun	42/42	1/1	3/3
Mr. Fu Zhenjun *(Note 2)*	22/27	0/0	0/2
Ms. Tsui Kwok Yin, Czarina *(Note 3)*	2/6	0/0	0/0
Mr. Kuang Yuanwei *(Note 4)*	0/0	0/0	0/0
Non-executive director			
Mr. Yiu Kwok Ming, Tommy	23/31	0/1	0/3
Independent non-executive directors			
Mr. Liang Jin An	30/31	0/1	0/3
Mr. Ng Lok Kei	29/31	0/1	0/3
Mr. Chan Hon Yuen	30/31	0/1	0/3
Mr. To Yan Ming, Edmond *(Note 5)*	18/19	0/1	0/2
Mr. Kaneko Hiroshi *(Note 6)*	0/0	0/0	0/0

CORPORATE GOVERNANCE REPORT

Notes:

1. Resigned on 28 September 2012
2. Appointed on 23 March 2012
3. Appointed on 21 September 2012
4. Appointed on 1 February 2013
5. Appointed on 24 April 2012
6. Appointed on 5 November 2012

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

The posts of Chairman and CEO are separate. There is a clear distinction between their responsibilities. The Chairman is responsible for the Company's overall business directions and coordination between the Board and the Company's management, and the CEO is responsible for the business operations and executions of decisions made by the Board.

TERMS OF APPOINTMENTS AND RE-ELECTION OF DIRECTORS

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

AUDIT COMMITTEE

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

At 31 December 2012, the Audit Committee comprises four independent non-executive directors, namely Mr. Chan Hon Yuen (Chairman of the Committee), Mr. Ng Lok Kei, Mr. Liang Jin An and Mr. To Yan Ming, Edmond (Note 5). Two meetings were held during the year.

Members	**Number of Audit Committee meetings attended/held**
Independent non-executive directors	
Mr. Chan Hon Yuen	2/2
Mr. Ng Lok Kei	2/2
Mr. Liang Jin An	2/2
Mr. To Yan Ming, Edmond *(Note 5)*	1/1

CORPORATE GOVERNANCE REPORT

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

Relationship with the Company's auditor

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

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

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

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

Review of the Company's financial information

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

   (i) any changes in accounting policies and practices;

   (ii) major judgmental areas;

   (iii) significant adjustments resulting from audit;

   (iv) the going concern assumptions and any qualifications;

   (v) compliance with accounting standards; and

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

(f) Regarding (e) above:

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

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

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

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

REMUNERATION COMMITTEE

The Remuneration Committee was established to determine the compensation structure and rewards for the CEO and other executive directors and monitors the policies being applied in remunerating other senior executives. The Remuneration Committee comprises four independent non-executive directors, namely Mr. Liang Jin An (Chairman of the Committee), Mr. Ng Lok Kei and Mr. Chan Hon Yuen, Mr. To Yan Ming, Edmond (Note 5) and one executive director, namely Mr. Wong Man Pan. During the year, one Remuneration Committee meeting had been convened to discuss the remuneration policy of the Group.

Members	**Number of Remuneration Committee meeting attended/held**
Executive director	
Mr. Wong Man Pan	1/1
Independent non-executive directors	
Mr. Liang Jin An	1/1
Mr. Ng Lok Kei	1/1
Mr. Chan Hon Yuen	1/1
Mr. To Yan Ming, Edmond *(Note 5)*	1/1

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

NOMINATION COMMITTEE

The Nomination Committee is responsible for selecting Board members and ensuring transparency of the selection process. The Committee identifies individuals suitably qualified to become or continue to be the Board members by taking into considerations criteria like expertise, experience and commitment and makes recommendations to the Board on the selection of individuals nominated for directorships. The Nomination Committee currently comprises four independent non-executive directors, namely Mr. Chan Hon Yuen (Chairman of the Committee), Mr. Ng Lok Kei, Mr. Liang Jin An and Mr. To Yan Ming, Edmond (Note 5) and two executive directors, namely Mr. Wong Man Pan and Mr. Tsang King Sun. One meeting was held during the year.

Members	**Number of Nomination Committee meeting attended/held**
Executive directors	
Mr. Wong Man Pan	1/1
Mr. Tsang King Sun	1/1
Independent non-executive directors	
Mr. Liang Jin An	1/1
Mr. Ng Lok Kei	1/1
Mr. Chan Hon Yuen	1/1
Mr. To Yan Ming, Edmond *(Note 5)*	1/1

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

In evaluating whether an appointee is suitable to act as a Director, the Board will consider the skills and expertise of the appointee, as well as personal ethics, integrity and the willingness to commit time to the affairs of the Group. Where the appointee is appointed as an Independent Non-executive Director, the Nomination Committee will also consider his/her independence. During the year, the Nomination Committee reviewed the structure, size and composition of the Board and recommended to the Board the candidates for directorship and senior management and assessed the independence of the Independent Non-executive Directors.

FINANCIAL REPORTING

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

The responsibilities of independent external auditors to the shareholders are set out on pages 30 to 31 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

EXTERNAL AUDITORS

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

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2012, the services provided by the Company's independent external auditors to the Group were as follows:

	2012	2011
	HK$'000	*HK$'000*
Audit services	**588**	450
Other assurance services	**675**	—
Non-assurance services	**1,263**	440

COMPANY SECRETARY

The company secretary is an employee of the Company and is appointed by the Board. He supports the chairman, Board and board committees by ensuring good information flow and reports to the Board and assists the Board in functioning effectively and efficiently. The company secretary also advises the Board on governance matters and facilitates the induction and professional development of directors. All directors of the Company may call upon him for advice and assistance at any time in respect to their duties and the effective operation of the Board and board committee.

Mr. Tsang King Sun has been the company secretary of the Company since July 2011. He is also the authorised representative and the chief financial officer of the Company. The biographical detail of Mr. Tsang is set out in the section of Profile of the Management on page 11 of this report. During the year, Mr. Tsang undertook not less than 15 hours of relevant professional training.

COMMUNICATIONS WITH SHAREHOLDERS

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

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

Shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

1. Procedures for shareholders to convene a special general meeting (the "SGM")

Bye-laws

1.1 Bye-law 62 sets out the position under the Bye-laws where a requisition is made by shareholders of the Company (the "**Shareholders**" and each a "**Shareholder**"). Bye-law 62 provides that an SGM shall be convened on requisition, as provided by the Companies Act (as defined therein), or, in default, may be convened by the requisitionists.

Companies Act

1.2 Pursuant to section 74 of the Companies Act, a Shareholder or Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company may requisition the directors of the Company (the "**Directors**" and each a "**Director**") to forthwith proceed duly to convene a SGM by depositing a written requisition at the registered office of the Company.

1.3 The written requisition must state the purposes of the meeting (including the resolutions to be considered at the meeting), signed by the requisitionists, deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and may consist of several documents in like form each signed by one or more requisitionists.

1.4 If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a SGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM, but any SGM so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

1.5 A SGM so convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

2. Procedures for shareholders to put forward proposals at a general meeting

Companies Act

2.1 Sections 79 and 80 of the Companies Act allow certain Shareholder(s) to requisition the Company to give notice to the shareholders in respect of any resolution which is intended to be moved at an annual general meeting ("**AGM**") of the Company or circulate a statement in respect of any proposed resolution or business to be considered at a general meeting of the Company. Under section 79 of the Companies Act, at the expense of the requisitionists unless the Company otherwise resolves, it shall be the duty of the Company on the requisition in writing by such number of Shareholders:

(a) to give to the Shareholders entitled to receive notice of the next AGM notice of any resolution which may properly be moved and is intended to be moved at that meeting;

(b) to circulate to the Shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

2.2 The number of Shareholders necessary to make the above-mentioned requisitions to the Company shall be:

(i) either any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or

(ii) not less than one hundred Shareholders.

2.3 Notice of any such intended resolution shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other Shareholder by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meeting of the Company, provided that the copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

2.4 Section 80 of the Companies Act sets out the conditions to be met before the Company is bound to give any notice of resolution or to circulate any statement. Pursuant to section 80 of the Companies Act, the Company shall not be bound to give notice of any resolution or to circulate any statement as mentioned in paragraph 2.1 above unless:

(a) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company:

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

(ii) in the case of any other requisition, not less than one week before the meeting; and

(b) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expense in giving effect to the procedures in paragraph 2.1 above (i.e. the giving of notice of resolution and/or circulation of statement).

Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the registered office of the Company, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the above-mentioned time shall be deemed to have been properly deposited for the purposes thereof.

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 13 to the financial statements.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 105.

The directors do not recommend the payment of a dividend in respect of the year (2011: Nil).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 36 and note 32(b) to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company had no distributable reserves. However, the Company's share premium account, in the amount of HK$1,423,801,000 (2011: HK$1,213,244,000) may be distributed in the form of fully paid bonus shares and the Company's contributed surplus is available for distribution under the conditions as detailed in note 32(b) to the financial statements.

CHANGE OF COMPANY'S NAME

By a special resolution passed on 1 February 2013, the name of the Company was changed from Bao Yuan Holdings Limited to China Household Holdings Limited and the Company adopted the Chinese name 中國家居控股有限公司 as part of its legal name.

DONATIONS

During the year, the Group made charitable donations amounting to HK$303,000 (2011: HK$107,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.

DIRECTORS' REPORT

SHARE CAPITAL

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

BANK BORROWINGS

Particulars of bank borrowings of the Group at 31 December 2012 are set out in notes 26 to the financial statements.

PRE-EMPTIVE RIGHTS

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 106. This summary does not form part of the audited financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DIRECTORS

The directors during the year were:

Executive directors

Mr. Wong Man Pan *(appointed as Chairman on 1 February 2013)*
Mr. Yim Hin Keung *(resigned on 28 September 2012)*
Mr. Tsang King Sun
Mr. Fu Zhenjun *(appointed on 23 March 2012)*
Mr. Yiu Kwok Ming, Tommy *(re-designated as non-executive director on 3 January 2012)*
Ms. Tsui Kwok Yin, Czarina *(appointed on 21 September 2012)*
Mr. Kuang Yuanwei *(appointed on 1 February 2013)*

Non-Executive director

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

DIRECTORS' REPORT

Independent non-executive directors

Mr. Liang Jin An
Mr. Ng Lok Kei
Mr. Chan Hon Yuen
Mr. To Yan Ming, Edmond *(appointed on 24 April 2012)*
Mr. Kaneko Hiroshi *(appointed on 5 November 2012)*

In accordance with Clause 99 of the Company's bye-laws, Mr. Liang Jin An, Mr. Yiu Kwok Ming, Tommy and Mr. Ng Lok Kei will retire by rotation at the forthcoming annual general meeting and pursuant to Clause 102(A) of the Company's bye-laws, Ms. Tsui Kwok Yin, Czarina, Mr. Kaneko Hiroshi and Mr. Kuang Yuanwei will retire at the forthcoming annual general meeting. All the retiring directors are eligible for re-elections.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in "Related party transactions" set out in note 37 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out on pages 11 to 12.

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2012, the directors or their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Shares — long position

The Company:

	Number of shares held				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Mr. Yiu Kwok Ming, Tommy	51,812	—	—	—	51,812

Interest in underlying share

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

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

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

SUBSTANTIAL SHAREHOLDERS

Any parties (other than the directors) have long positions in the shares and underlying shares as recorded in the register are required to be kept by the Company pursuant to Section 336 of the SFO. As at 31 December 2012, the following shareholder had notified the Company of relevant interests in the issued share capital of the Company:

Shares — long position

The Company:

Name	Number of underlying shares interested	Percentage of issued share capital at 31 December 2012
Lam Man Tung	111,967,547	5.12%

Interest in underlying shares

Name	Number of underlying shares interested	Percentage of issued share capital at 31 December 2012
Union Prosper Limited	416,666,667	19.06%

Notes:

(a) Union Prosper Limited is legally and beneficially owned as to 100% by Mr. Ng Shu Wah. As at 31 December 2012, it held HK$50,000,000 convertible bonds of the Company.

(b) The interest represents the maximum number of new shares which may be issued upon the full conversion of convertible bonds issued by the Company at the conversion price HK$0.12 per share.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

During the year, the Group had connected transactions set out in note 37 to the financial statement, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules. The independent non-executive directors have reviewed the connected transactions with the related parties. In their opinion, these transactions entered into by the Group were:

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

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

Other than those transactions described in note 37 to the financial statements, the directors have conducted review of the related party transactions of the Group during the year ended 31 December 2012 and were not aware any other transaction requiring disclosure of connected transactions in accordance with the requirements of the Listing Rules.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

— the largest supplier	16%
— five largest suppliers combined	46%

Sales

— the largest customer	21%
— five largest customers combined	56%

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

DIRECTORS' INTEREST IN COMPETING INTEREST

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

DIRECTORS' REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

Please refer to the Corporate Governance Report on pages 13 to 23 of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 38 to the financial statements.

AUDIT COMMITTEE

The Audit Committee comprises four independent non-executive directors, namely, Mr. Chan Hon Yuen, Mr. Ng Lok Kei, Mr. Liang Jin An and Mr. To Yan Ming, Edmond. Two meetings were held during the current financial year. The Audit Committee had reviewed the audited results of the Group for the year ended 31 December 2012.

AUDITORS

Ascenda Cachet CPA Limited acted as auditors of the Company for the past five year.

The financial statements for the year ended 31 December 2012 were audited by Ascenda Cachet CPA Limited.

Ascenda Cachet CPA Limited shall retire at the forthcoming annual general meeting and do not seek for re-appointment as the auditors of the Company.

A resolution for the appointment of Elite Partners CPA Limited as the auditors of the Company for the year ending 31 December 2013 will be proposed at the upcoming annual general meeting of the Company.

On behalf of the Board

Wong Man Pan
Chairman

Hong Kong, 26 March 2013, except as to note 38(d), which is as of 23 April 2013

INDEPENDENT AUDITORS' REPORT

Ascenda CACHET
天健德揚

13F Neich Tower
128 Gloucester Road
Wanchai
Hong Kong

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

We have audited the financial statements of China Household Holdings Limited (formerly "Bao Yuan Holdings Limited") (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 105, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 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.

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Yuk Tong
Practising Certificate number P03723

Hong Kong
26 March 2013, except as to note 38(d), which is as of 23 April 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Revenue	5	**17,286**	25,711
Cost of sales	6	**(7,377)**	(21,511)
Gross profit		**9,909**	4,200
Other income	5	**4,688**	2,116
Gain on early redemption of convertible bonds		**60,324**	—
Waiver of other payables	28	**22,794**	—
Impairment loss on exploration and evaluation assets	14	**—**	(160,829)
Selling and distribution expenses		**(607)**	(1,744)
Administrative expenses		**(56,699)**	(34,884)
Net fair value (losses)/gains on equity investments at fair value through profit or loss		**(13,748)**	6,062
Finance costs	7	**(45,902)**	(58,119)
Loss before tax	6	**(19,241)**	(243,198)
Income tax expense	9	**(749)**	39,521
LOSS FOR THE YEAR		**(19,990)**	(203,677)
Attributable to:			
Owners of the Company		**(16,438)**	(198,747)
Non-controlling interests		**(3,552)**	(4,930)
		(19,990)	(203,677)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		**(HK$0.014)**	(HK$0.83)
Diluted		**(HK$0.014)**	(HK$0.83)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 *HK$'000*	2011 *HK$'000*
LOSS FOR THE YEAR	**(19,990)**	(203,677)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**266**	689
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**266**	689
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(19,724)**	(202,988)
Total comprehensive income for the year attributable to:		
Owners of the Company	**(16,211)**	(198,093)
Non-controlling interests	**(3,513)**	(4,895)
	(19,724)	(202,988)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**3,450**	2,895
Exploration and evaluation assets	14	**1,539,000**	1,539,000
Intangible assets	15	**42,227**	3,800
Loan receivables	20	**1,450**	—
Deposit paid for the acquisition of a subsidiary	22	**—**	80,000
Available-for-sale investments	16	**590**	590
Convertible note receivable	24	**2,672**	—
Deferred tax asset	17	**40,207**	40,207
Goodwill	18	**290,778**	—
Total non-current assets		**1,920,374**	1,666,492
CURRENT ASSETS			
Inventories	19	**1,457**	446
Loan receivables	20	**23,350**	20,974
Trade and bills receivables	21	**1,710**	1,255
Prepayments, deposits and other receivables	22	**7,975**	8,660
Equity investments at fair value through profit or loss	23	**27,775**	29,038
Conversion option embedded in convertible note receivable	24	**1**	—
Pledged deposits	25	**6,235**	6,003
Cash and cash equivalents	25	**11,287**	35,979
Total current assets		**79,790**	102,355
CURRENT LIABILITIES			
Bank overdrafts, secured	26	**466**	267
Trade payables	27	**1,980**	932
Other payables and accruals	28	**3,429**	27,425
Tax payable		**2,896**	1,958
Deferred tax liabilities	17	**152**	—
Total current liabilities		**8,923**	30,582
NET CURRENT ASSETS		**70,867**	71,773
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,991,241**	1,738,265

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT LIABILITIES			
Convertible bonds	29	**2,591**	311,600
Promissory notes	30	**321,914**	—
Total non-current liabilities		**324,505**	311,600
Net assets		**1,666,736**	1,426,665
EQUITY			
Equity attributable to owners of the Company			
Issued capital	31	**2,187**	405
Equity component of convertible bonds	29	**47,503**	112,551
Reserves	32(a)	**1,600,828**	1,316,067
		1,650,518	1,429,023
Shares to be issued	29	**21,418**	—
Non-controlling interests		**(5,200)**	(2,358)
Total equity		**1,666,736**	1,426,665

Wong Man Pan
Chairman

Tsang King Sun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital $'000 *Note 31*	Share premium# $'000 *Note 32a*	Contributed surplus# $'000 *Note 32a*	Employee share option reserves# $'000 *Note 33*	Capital reserves# $'000 *Note 32a*	Equity component of convertible bonds $'000 *Note 29*	Exchange reserves# $'000	Accumulated losses# $'000	Total $'000	Shares to be issued $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2011	4,902	959,486	226,512	2,453	(21)	210,741	462	(132,509)	1,272,026	–	2,537	1,274,563
Loss for the year	–	–	–	–	–	–	–	(198,747)	(198,747)	–	(4,930)	(203,677)
Other comprehensive income	–	–	–	–	–	–	654	–	654	–	35	689
Total comprehensive income for the year	–	–	–	–	–	–	654	(198,747)	(198,093)	–	(4,895)	(202,988)
Redemption of convertible bonds	–	–	–	–	–	(98,190)	–	41,647	(56,543)	–	–	(56,543)
Issue of shares through placement	2,140	34,795	–	–	–	–	–	–	36,935	–	–	36,935
Capital reduction *(note 31(e))*	(161,572)	–	161,572	–	–	–	–	–	–	–	–	–
Issue of rights shares *(note 31(d))*	154,935	218,963	–	–	–	–	–	–	373,898	–	–	373,898
Equity-settled share option arrangements	–	–	–	800	–	–	–	–	800	–	–	800
At 31 December 2011 and 1 January 2012	405	1,213,244	388,084	3,253	(21)	112,551	1,116	(289,609)	1,429,023	–	(2,358)	1,426,665
Loss for the year	–	–	–	–	–	–	-	(16,438)	(16,438)	–	(3,552)	(19,990)
Other comprehensive income	–	–	–	–	–	–	227	–	227	–	39	266
Total comprehensive income for the year	–	–	–	–	–	–	227	(16,438)	(16,211)	–	(3,513)	(19,724)
Issue of convertible bonds	–	–	–	–	–	47,503	–	–	47,503	–	–	47,503
Redemption of convertible bonds	–	–	–	–	–	(112,551)	–	90,081	(22,470)	–	–	(22,470)
Issue of shares through placement *(note 31(f))*	81	15,426	–	–	–	–	–	–	15,507	–	–	15,507
Issue of shares through open offer *(note 31(g))*	1,701	195,131	–	–	–	–	–	–	196,832	–	–	196,832
Equity-settled share option arrangements	–	–	–	334	–	–	–	–	334	–	–	334
Capital contribution by non-controlling interest	–	–	–	–	–	–	–	–	–	–	551	551
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	–	120	120
Transfer of convertible bond by bondholder *(note 29)*	–	–	–	–	–	–	–	–	–	21,418	–	21,418
At 31 December 2012	2,187	1,423,801	388,084	3,587	(21)	47,503	1,343	(215,966)	1,650,518	21,418	(5,200)	1,666,736

These reserve accounts comprise the consolidated reserves of approximately HK$1,600,828,000 (2011: HK$1,316,067,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(19,241)**	(243,198)
Adjustments for:			
Depreciation	12	**513**	284
Amortisation of intangible asset	15	**3,602**	200
Interest income	5	**(143)**	(60)
Gain on early redemption of convertible bonds		**(60,324)**	—
Interest expenses	7	**88**	95
Interest on convertible bonds	7	**33,894**	58,024
Interest on promissory notes	7	**11,920**	—
Net fair value losses/(gains) on equity investments at fair value through profit or loss	6	**13,748**	(6,062)
Gain on disposal of items of property, plant and equipment	5	**—**	(255)
Write off of items of property, plant and equipment	12	**744**	—
(Profits)/losses on trading of equity investments at fair value through profit or loss	5	**(1,639)**	116
Fair value change of conversion option embedded in convertible note receivable		**458**	—
Imputed interest income on convertible note receivable	24	**(71)**	—
Impairment loss on exploration and evaluation assets	14	**—**	160,829
Share-based payment		**334**	800
		(16,117)	(29,227)
Increase in inventories		**(1,011)**	(446)
(Increase)/decrease in trade and bills receivables		**(335)**	181
Decrease/(increase) in other receivables, prepayments and deposits		**4,943**	(6,774)
Increase in loan receivables		**(3,826)**	(20,974)
Increase/(decrease) in trade payables		**540**	(5,873)
Decrease in other payables and accruals		**(24,443)**	(1,275)
Effect of foreign exchange rate changes		**108**	13
Cash used in operations		**(40,141)**	(64,375)
Hong Kong profits tax refund		**256**	—
Interest paid	7	**(88)**	(95)
Overseas taxes paid		**(66)**	—
Net cash flows used in operating activities		**(40,039)**	(64,470)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**143**	60
Increase in pledged time deposits with original maturity more than three months	*25*	**(232)**	(4,130)
Purchases of items of property, plant and equipment	*12*	**(1,713)**	(2,453)
Payment of acquisition of equity investment at fair value through profit or loss		**(26,751)**	(109,276)
Deposit paid for the acquisition of a subsidiary	*22*	**—**	(80,000)
Purchase of intangible asset	*15*	**—**	(4,000)
Additions of exploration and evaluation asset	*14*	**—**	(813)
Proceeds from disposal of items of property, plant and equipment		**—**	414
Proceeds from disposal of equity investment at fair value through profit or loss		**15,905**	89,172
Acquisition of subsidiaries	*34*	**(39,704)**	—
Purchase of convertible note receivable		**(3,060)**	—
Net cash flows used in investing activities		**(55,412)**	(111,026)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution by non-controlling interests		**551**	—
Proceeds from open offer		**196,832**	—
Proceeds from issues of shares		**15,507**	36,935
Proceeds from rights issue		**—**	373,898
Redemption of convertible bonds	*29*	**(131,677)**	(320,000)
Interest paid on convertible bonds	*29*	**(10,659)**	(15,073)
Net cash flow from financing activities		**70,554**	75,760
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(24,897)**	(99,736)
Cash and cash equivalents at beginning of year		**35,712**	135,303
Effect of foreign exchange rate change, net		**6**	145
CASH AND CASH EQUIVALENTS AT END OF YEAR		**10,821**	35,712
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**11,287**	35,979
Bank overdrafts, secured		**(466)**	(267)
Cash and cash equivalents at stated in the consolidated statement of cash flows		**10,821**	35,712

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**124**	395
Interests in subsidiaries	13	**1,724,034**	1,626,349
Total non-current assets		**1,724,158**	1,626,744
CURRENT ASSETS			
Prepayments, deposits and other receivables	22	**425**	637
Cash and cash equivalents	25	**37**	6,626
Due from subsidiaries	13	**84,904**	73,475
Total current assets		**85,366**	80,738
CURRENT LIABILITIES			
Other payables and accruals	28	**806**	3,527
Total current liabilities		**806**	3,527
NET CURRENT ASSETS		**84,560**	77,211
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,808,718**	1,703,955
NON-CURRENT LIABILITIES			
Convertible bonds	29	**2,591**	311,600
Promissory notes	30	**148,968**	—
Total non-current liabilities		**151,559**	311,600
NET ASSETS		**1,657,159**	1,392,355
EQUITY			
Issued capital	31	**2,187**	405
Equity component of convertible bonds	29	**47,503**	112,551
Reserves	32(b)	**1,586,051**	1,279,399
		1,635,741	1,392,355
Shares to be issued	29	**21,418**	—
TOTAL EQUITY		**1,657,159**	1,392,355

Wong Man Pan
Chairman

Tsang King Sun
Director

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

1. CORPORATE INFORMATION

China Household Holdings Limited (formerly "Bao Yuan Holdings Limited") (the "Company") is a limited liability company incorporated in Bermuda and its registered office is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The Company's principal place of business in Hong Kong is located at Suite no. 1001B, 10/F., Tower 1, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

Pursuant to a special resolution passed at Special General Meeting of the Company held on 1 February 2013 and approved by the Registrars of Companies of Hong Kong, the name of the Company was changed from Bao Yuan Holdings Limited to China Household Holdings Limited and the secondary name of the Company was changed from "寶源控股有限公司" to "中國家居控股有限公司".

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

The provision of information and technologies services and sales of related products is a new business segment of the Group through an acquisition of subsidiaries during the year (note 34).

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. In addition, the financial statements include applicable disclosures requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for equity investments at fair value through profit or loss and conversion option embedded in convertible note receivable, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 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 it 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 THE FINANCIAL STATEMENTS

31 December 2012

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs, which are applicable to the Group, for the first time for the current year's financial statements.

HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: *Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 Income Taxes – Deferred tax: *Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

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. Among the new and revised HKFRSs, the following are expected to be relevant to the Group's financial statements upon become effective:

HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKFRS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	Employee Benefits[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associate and Joint Ventures[2]
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: *Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure 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 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-related 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations and goodwill *(continued)*

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Acquisition of assets

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

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Related parties *(continued)*

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

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

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

(iii) the entity and the group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

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

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Exploration and evaluation assets

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

Leases

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

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

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 at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets

Initial recognition and measurement

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

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

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 positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other operating expenses in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. 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 other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments

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

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

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

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

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

Derecognition of financial assets

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Derecognition of financial assets *(continued)*

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

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

Impairment of financial assets

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

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

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

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

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31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, other payables and accruals, bank overdrafts, convertible bonds and promissory notes.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities *(continued)*

Subsequent measurement

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

Loans and borrowings

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

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

Convertible bonds

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

Derecognition of financial liabilities

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

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

Fair value of financial instruments

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

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Cash and cash equivalents

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

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

Provisions

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

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

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

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

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

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

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

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

Revenue recognition

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

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

(b) from rendering of services, recognised when the services are rendered;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(d) securities trading, when the significant risks and rewards of ownership have been transferred to the buyer; and

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Share-based payment

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, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model, further details of which are given in note 33 to the financial statements.

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

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

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

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

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

Other employee benefits

Pension scheme

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on the translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on 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 currencies of certain overseas subsidiaries are currencies other than Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of at the exchange rates prevailing at the end of the reporting period and, their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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

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

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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.

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.

3. SIGNIFICANT ACCOUNTING ESTIMATES *(CONTINUED)*

Estimation uncertainty *(continued)*

Impairment of trade and loans receivables

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

The aggregate carrying amount of trade and bills receivables, and loans receivable at 31 December 2012 was HK$1,710,000 and HK$24,800,000, respectively (2011: HK$1,255,000 and HK$20,974,000). More details are given in notes 21 and 20 to the financial statements.

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 a cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives of property, plant and equipment

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

Impairment of mining rights/exploration and evaluation assets

The Group assesses whether there are any indicators of impairment of mining rights/exploration and evaluation assets at the end of each reporting period. Mining rights/exploration and evaluation assets are tested for impairment whether there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of mining rights/exploration and evaluation assets exceeds its recoverable amount, which is the higher of its fair value less cost 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 mining rights/exploration and evaluation assets and choose a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

3. SIGNIFICANT ACCOUNTING ESTIMATES *(CONTINUED)*

Estimation uncertainty *(continued)*

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis, This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was HK$290,778,000 (2011: nil). Further details are given in note 18.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has seven (2011: six) reportable operating segments as follows:

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

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

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

(d) the securities segment is trading of securities;

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

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

(g) the information and technologies services segment is the provision of information and technologies services and sales of related products

The information and technologies services segment was new business segment through an acquisition of subsidiaries by the Group during the year (note 34).

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

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, 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 bank overdrafts, trade payables, convertible bonds, promissory notes, deferred tax liabilities, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

	Year ended 31 December 2012							
	Sales of fabrics *HK$'000*	Sales of garments and accessories *HK$'000*	Mining *HK$'000*	Securities *HK$'000*	Money lending *HK$'000*	Fashion *HK$'000*	Information and technologies services *HK$'000*	Total *HK$'000*
Segment revenue								
Sales to external customers	–	6,399	–	1,719	5,309	2,442	1,417	17,286
Segment results	(1)	(3,642)	(3,081)	(13,215)	4,758	(8,872)	(3,576)	(27,629)
Reconciliation:								
Interest income and unallocated gains								86,376
Corporate and other unallocated expenses								(32,086)
Finance costs								(45,902)
Loss before tax								(19,241)
Segment assets	2	5,632	1,539,345	24,675	24,976	7,910	43,661	1,646,201
Reconciliation:								
Unallocated assets								353,963
Total assets								2,000,164
Segment liabilities	15	1,784	316	25	176	573	1,427	4,316
Reconciliation:								
Unallocated liabilities								329,112
Total liabilities								333,428
Other segment information								
Capital expenditure*	–	–	22	–	80	1,508	41,975	43,585
Reconciliation:								
Unallocated capital expenditure								103
								43,688
Depreciation and amortisation	–	–	5	–	35	1,119	2,812	3,971
Unallocated depreciation and amortisation								144
								4,115
Impairment loss on trade and bills receivables	–	129	–	–	–	–	–	129

* Capital expenditure consists of additions to property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Geographical information

	For the year ended 31 December 2012					
	Hong Kong *HK$'000*	**United States** *HK$'000*	**The PRC** *HK$'000*	**Italy** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Revenue Sales to external customers	**10,112**	**571**	**817**	**5,755**	**31**	**17,286**
Segment assets	**452,256**	**120**	**1,547,668**	**—**	**120**	**2,000,164**
Capital expenditure	**42,064**	**—**	**1,624**	**—**	**—**	**43,688**

	For the year ended 31 December 2011					
	Hong Kong *HK$'000*	United States *HK$'000*	The PRC *HK$'000*	Italy *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue Sales to external customers	1,625	12,742	—	10,347	997	25,711
Segment assets	184,553	209	1,582,620	1,174	291	1,768,847
Capital expenditure	5,539	—	1,727	—	—	7,266

Revenue from major customers was derived from sales of garments and accessories segment, detailed information was summarised as follows:

Customers	**2012** *HK$'000*	2011 *HK$'000*
A	**2,842**	4,656
B	**2,595**	5,689
C	**—**	12,742
Total	**5,437**	23,087

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2012 *HK$'000*	2011 *HK$'000*
Revenue		
Sales of goods	**9,409**	24,873
Provision of services	**849**	—
Interest income from loan receivables	**5,309**	874
Profit/(loss) on trading of equity investments at fair value through profit or loss	**1,639**	(116)
Dividend income from listed equity investments	**80**	80
	17,286	25,711
Other income and gains		
Bank interest income	**143**	60
Interest income on convertible note receivable	**71**	—
Commission income	**719**	1,060
Gain on disposal of items of property, plant and equipment	**—**	255
Others	**3,755**	741
	4,688	2,116

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

6. LOSS BEFORE TAX

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

	Notes	**2012** **HK$'000**	2011 *HK$'000*
Cost of inventories sold		**7,209**	21,511
Cost of services provided		**168**	—
Depreciation	*12*	**513**	284
Auditors' remuneration		**588**	450
Amortisation of intangible assets	*15*	**3,602**	200
Exchange losses, net		**38**	68
Minimum lease payments under operating leases — land and buildings		**3,689**	2,866
Staff costs (excluding directors' remuneration *(note 8)*)			
Salaries and allowances		**11,904**	10,957
Retirement benefit costs		**538**	282
Equity-settled share option expenses		**167**	400
		12,609	11,639
Write off of items of property, plant and equipment	*12*	**744**	—
Impairment loss on trade and bills receivables	*21*	**129**	—
Bank interest income	*5*	**(143)**	(60)
Net fair value losses/(gains) on equity investments at fair value through profit or loss	*5*	**13,748**	(6,062)
Gain on disposal of items of property, plant and equipment		**—**	(255)

7. FINANCE COSTS

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

	2012 **HK$'000**	2011 *HK$'000*
Interest on bank loans and overdrafts	**35**	88
Interest on other loans	**53**	7
Interest on convertible bonds *(note 29)*	**33,894**	58,024
Interest on promissory notes *(note 30)*	**11,920**	—
	45,902	58,119

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

8. DIRECTORS' REMUNERATION

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

	2012 *HK$'000*	2011 *HK$'000*
Fees	**379**	218
Other emoluments:		
Salaries, allowances and benefits in kind	**2,535**	2,183
Equity-settled share option expenses	**167**	400
Retirement benefit costs	**90**	73
	2,792	2,656
	3,171	2,874

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

For the year ended 31 December 2012

Name of directors	Fees *HK$'000*	Salary, allowances and benefits in kind *HK$'000*	Retirement benefit costs *HK$'000*	Equity-settled share option expenses *HK$'000*	Total *HK$'000*
Executive directors					
Yim Hin Keung *(note b)*	—	207	9	—	216
Wong Man Pan	—	482	14	—	496
Tsang King Sun *(note j)*	—	530	14	—	544
Fu Zhenjun *(note c)*	—	101	5	—	106
Tsui Kwok Yin, Czarina *(note d)*	—	117	4	—	121
	—	1,437	46	—	1,483
Non-executive director					
Yiu Kwok Ming, Tommy *(note a)*	—	1,098	44	167	1,309
	—	2,535	90	167	2,792

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

8. DIRECTORS' REMUNERATION *(CONTINUED)*

Name of directors	Fees *HK$'000*
Independent non-executive directors	
Liang Jin Au	**48**
Ng Lok Kei *(note k)*	**120**
Chan Hon Yuen *(note l)*	**120**
To Yan Ming, Edmond *(note e)*	**72**
Kaneko Hiroshi *(note f)*	**19**
	379

For the year ended 31 December 2011

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

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

During the prior years, a director of Company was granted share options, in respect to his service to the Group, under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

8. DIRECTORS' REMUNERATION *(CONTINUED)*

Notes:

(a) Mr. Yiu Kwok Ming, Tommy, resigned as executive director of the Company with effect from 3 January 2012 and was re-designated as non-executive director with effect from 3 January 2012.

(b) Mr. Yim Hin Keung resigned as executive director of the Company with effect from 28 September 2012.

(c) Mr. Fu Zhenjun was appointed as executive director of the Company with effect from 23 March 2012.

(d) Ms. Tsui Kwok Yin, Czarina, was appointed as executive director of the Company with effect from 21 September 2012.

(e) Mr. To Yan Ming, Edmond, was appointed as independent non-executive director of the Company with effect from 24 April 2012.

(f) Mr. Kaneko Hiroshi was appointed as independent non-executive director with effect from 5 November 2012.

(g) Mr. Chan Yiu Fai resigned as executive director with effect from 31 May 2011.

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

(i) Mr. Wong Chun Hung resigned as independent non-executive director of the Company with effect from 30 June 2011.

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

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

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

During the year, there were no other emoluments payable to the independent non-executive directors (2011: Nil).

There was no remuneration paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2011: Nil). There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

Five highest paid employees

The five individuals whose remuneration were the highest in the Group included one (2011: Nil) executive director, one (2011: Nil) non-executive director and nil (2011: one) former executive director. Details of the remuneration of the remaining three (2011: four) highest paid employees during the year are as follows:

	2012 ***HK$'000***	2011 *HK$'000*
Salaries, allowances	**2,719**	3,748
Retirement benefit costs	**75**	73
Equity-settled share option expenses	**167**	400
	2,961	4,221

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

8. DIRECTORS' REMUNERATION *(CONTINUED)*

Five highest paid employees *(continued)*

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

	2012 Number	2011 Number
Nil — $1,000,000	**3**	2
HK$1,000,000 to HK$1,500,000	**—**	2
	3	4

9. INCOME TAX

The major components of income tax expense/(credit) of the Group for the year are as follows:

	2012 HK$'000	2011 HK$'000
Current tax — Hong Kong	**749**	686
Deferred tax — overseas *(note 17)*	**—**	(40,207)
	749	(39,521)

(a) Hong Kong profit tax has been provided at the rate of 16.5% (2011:16.5%) on the estimated assessable profits arising in Hong Kong during the year.

(b) Under the Corporate Income Tax Law of the People's Republic of China (the "PRC"), the corporate income tax rate applicable to the Group's companies operating in the PRC is 25%. No provision for corporate income tax in the PRC is made as the Group had no assessable profits arising in the PRC during the year (2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

9. INCOME TAX *(CONTINUED)*

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

	2012 *HK$'000*	**2012 %**	2011 *HK$'000*	2011 %
Loss before tax	**(19,241)**		(243,198)	
Tax credit calculated at the statutory tax rate	**(3,175)**	**16.5**	(40,128)	16.5
Tax effect of expenses not deductible	**11,900**	**(61.8)**	1,960	(0.8)
Tax effect of income not taxable	**(14,317)**	**74.4**	(32)	0.1
Difference tax rate under different jurisdiction	**(311)**	**1.6**	(13,884)	5.7
Tax effect of temporary difference on depreciable assets not recognised	**219**	**(1.2)**	(696)	0.3
Utilisation of previously unrecognised tax losses	**—**	**—**	(324)	0.1
Tax loss not recognised	**6,433**	**(33.4)**	13,583	(5.6)
Tax credit at effective tax rate	**749**	**(3.9)**	(39,521)	16.3

As at 31 December 2012, the Group has had losses of approximately HK$277 million (2011: HK$239 million) available to offset future profits. No deferred tax asset has been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the losses can be utilised. Except for tax losses of approximately HK$12 million (2011: HK$8 million) arising in the PRC that are available for offsetting against the following five years' taxable profits of the subsidiaries, the tax losses of approximately HK$265 million (2011: HK$231 million) arising in Hong Kong may be carried forward indefinitely. The effect of temporary differences on depreciable assets is not material.

10. PROFIT/(LOSS) ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2012 includes a profit of HK$5,680,000 (2011: a loss of HK$245,908,000) which has been dealt with in the financial statements of the Company (note 32(b)).

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

The calculation of basic loss per share amounts is based on the loss for the year attributable ordinary equity holders of the Company and the weighted average number of approximately 1,207,262,000 (2011: 240,554,000) ordinary shares in issue during the year.

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

NOTES TO THE FINANCIAL STATEMENTS

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11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(CONTINUED)*

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the share options and convertible bonds outstanding had an anti-dilutive effect on basic loss per share amounts presented.

The calculations of basic loss per share are based on

	2012	2011
	HK$'000	*HK$'000*
Loss		
Loss attributable to ordinary equity holders of the Company	**(16,438)**	(198,747)

	Number of shares	
	2012	2011
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**1,207,262**	240,554

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improve-ments *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December 2012					
At 31 December 2011 and 1 January 2012:					
Cost	916	2,196	360	900	4,372
Accumulated depreciation	(188)	(929)	(360)	—	(1,477)
Net carrying amount	728	1,267	—	900	2,895
At 1 January 2012, net of accumulated depreciation	728	1,267	—	900	2,895
Additions	1,833	780	—	(900)	1,713
Acquisition of subsidiaries *(note 34)*	—	99	—	—	99
Write off	(635)	(109)	—	—	(744)
Depreciation provided during the year	(146)	(367)	—	—	(513)
At 31 December 2012, net of accumulated depreciation	1,780	1,670	—	—	3,450
At 31 December 2012					
Cost	1,849	2,260	360	—	4,469
Accumulated depreciation	(69)	(590)	(360)	—	(1,019)
Net carrying amount	1,780	1,670	—	—	3,450

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

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

Group *(continued)*

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

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

Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Total *HK$'000*
31 December 2012			
At 31 December 2011 and 1 January 2012:			
Cost	**266**	**245**	**511**
Accumulated depreciation	**(42)**	**(74)**	**(116)**
Net carrying amount	**224**	**171**	**395**
At 1 January 2012, net of accumulated depreciation	**224**	**171**	**395**
Additions	**—**	**2**	**2**
Depreciation provided during the year	**(27)**	**(49)**	**(76)**
Write off	**(197)**	**—**	**(197)**
At 31 December 2012, net of accumulated depreciation	**—**	**124**	**124**
At 31 December 2012			
Cost	**266**	**247**	**513**
Accumulated depreciation	**(266)**	**(123)**	**(389)**
Net carrying amount	**—**	**124**	**124**
31 December 2011			
At 1 January 2011:			
Cost	266	245	511
Accumulated depreciation	(15)	(25)	(40)
Net carrying amount	251	220	471
At 1 January 2011, net of accumulated depreciation	251	220	471
Depreciation provided during the year	(27)	(49)	(76)
At 31 December 2011, net of accumulated depreciation	224	171	395
At 31 December 2011			
Cost	266	245	511
Accumulated depreciation	(42)	(74)	(116)
Net carrying amount	224	171	395

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

13. INVESTMENTS IN SUBSIDIARIES

	Company 2012 HK$'000	Company 2011 HK$'000
Unlisted share, at cost	**1,680,000**	1,680,000
Less: Impairment	**(160,829)**	(160,829)
	1,519,171	1,519,171
Due from subsidiaries	**306,923**	195,804
Less: Impairment	**(17,156)**	(15,151)
	289,767	180,653
	1,808,938	1,699,824
Classified as current assets — due from subsidiaries	**(84,904)**	(73,475)
Non-current assets	**1,724,034**	1,626,349

The amounts due from subsidiaries, which are classified as non-current assets, are unsecured, interest-free and in substance represent the Company's investment in subsidiaries in form of quasi-equity loans.

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have to fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Percentage of equity interest attributable to the Company Indirect	Principal activities
Target Rich Investment Limited	British Virgin Islands ("BVI")/Hong Kong	US$1	100%	—	Investment holding
Greater China Mining Resources Limited	BVI/The People's Republic of China (the "PRC")	US$100	100%	—	Investment holding
Excel Growth Investments Limited	BVI/Hong Kong	US$1	100%	—	Investment holding
Victory Chain Investment Limited	BVI/Hong Kong	US$1	100%	—	Security investment
South Field (Pacific) Limited	Hong Kong	HK$1,000,101	—	56%	Sale of garments and accessories
Glamour International Limited	Samoa/Hong Kong	US$3	—	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

13. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Alpha Textile International Limited	Hong Kong	HK$10,000	—	65%	Sale of fabrics
Ching Hing (Holdings) Investment Limited	Hong Kong	HK$10,000	—	100%	Investment holding
Calvin Textiles Limited	Hong Kong	HK$10,000	—	100%	Merchandising services
Mark Joy International Limited	Hong Kong	HK$10	—	56%	Investment holding
Greater China Mining Resources Limited	Hong Kong/The PRC	HK$1	—	100%	Investment holding
陝西泰升達礦業有限公司 (Shaanxi Tai Sheng Da Mining Company Limited)*#@	The PRC	RMB24,534,126 (2011: RMB21,000,000)	—	95%	Mining exploration
Ocean Yield International Limited	Hong Kong	HK$1	—	100%	Money lending
Aile Company Limited	Hong Kong	HK$1	—	100%	Provision of design and related services and sales of designers' products
Alibellus Plus Limited	Hong Kong	HK$1	—	63%	Provision of design and related services and sales of designers' products
深圳市泓訊電子科技有限公司(Shenzhen City Hong Xun Electronic and Technology Company Limited)*#^	The PRC	RMB5,000,000	—	100%	Provision of information and technologies services and sales of related products
m3 Technology Development Limited	Hong Kong	HK$1,000	—	100%	Provision of information and technologies services and sales of related products

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

13. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

* Ascenda Cachet CPA Limited were not the statutory auditors.

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

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

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

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

14. EXPLORATION AND EVALUATION ASSETS

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January 2012, at cost	**1,539,000**	1,698,481
Additions during the year	**—**	813
Exchange realignment	**—**	535
Impairment during the year	**—**	(160,829)
At 31 December 2012	**1,539,000**	1,539,000

In 2010, the Group has obtained a mining licence expiring on 22 September 2014 of 陝西省紫陽縣桃園 — 大柞木溝鈦磁鐵礦 (literally translated as Shannxi Province Ziyang Country Taoyuan – Dazoumugou Taicitie Mine, the "Mine"), an iron and titanium dioxide mine with a total mining area of 7.8892 km^2 located at Ziyang Country, Shaanxi Province, the PRC. However, the Group has to obtain other approvals and licences to commence/continue the operations on the Mine. As advised by the Company's legal advisors, the directors are of opinion that the mining licence is renewable for 5 more years each time and the Group did not have any legal impediment for such renewal.

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

During the year ended 31 December 2012, the Group incurred an amount of approximately HK$Nil (2011: HK$813,000) in relation to topography survey and feasibility study and which was capitalised as exploration and evaluation asset. The Group has not carried out any development nor production activity during the year. None of the exploration and evaluation costs were transferred to the property, plant and equipment as the directors of the Company are of the opinion that the exploration properties were not capable of commercial production at the end of the reporting period.

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14. EXPLORATION AND EVALUATION ASSETS *(CONTINUED)*

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

	2012 **HK$'000**	2011 HK$'000
Operating activities	**(2,704)**	(2,665)
Investing activities	**(22)**	(813)
	(2,726)	(3,478)

The application for the PRC approval of the Mine is still in progress and the Group did not have any operation during the year ended 31 December 2012. The directors decided to postpone the mining plan and they expected that the Group will obtain all the required licences and approvals (the "Approvals") by year 2014. Construction of facilities will start upon receiving the Approvals including but not limited to (i) the acquisition of land; (ii) construction of the mining factories; (iii) acquisition and construction of mining machineries/infrastructure; and (iv) production testing. The construction is divided into 3 stages and will take about 24 to 36 months to finish. Pilot production will commence after the first stage of construction work. The Group engaged an independent valuer, Dragon Mining Consulting Limited, to assess the fair value of the exploration and evaluation assets. The fair value of the exploration and evaluation assets as at 31 December 2012 was approximately HK$1,539,000,000 (2011: HK$1,539,000,000) based on the income approach. No further impairment loss (2011: HK$160,829,000) on the exploration and evaluation assets was charged to the consolidated income statement for the year ended 31 December 2012.

15. INTANGIBLE ASSETS

Group

31 December 2012	**Other intangible assets** *(note (a))* **HK$'000**	**Computer software** *(note (b))* **HK$'000**	**Total** **HK$'000**
Cost at 1 January 2012, net of accumulated amortisation	**—**	**3,800**	**3,800**
Additions through acquisition of subsidiaries *(note 34)*	**41,876**	**—**	**41,876**
Amortisation provided during the year	**(2,802)**	**(800)**	**(3,602)**
Exchange realignment	**153**	**—**	**153**
At 31 December 2012	**39,227**	**3,000**	**42,227**
At 31 December 2012			
Cost	**41,876**	**4,000**	**45,876**
Accumulated amortisation	**(2,649)**	**(1,000)**	**(3,649)**
Net carrying amount	**39,227**	**3,000**	**42,227**

NOTES TO THE FINANCIAL STATEMENTS

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15. INTANGIBLE ASSETS *(CONTINUED)*

Group

31 December 2011	**Computer software** *(note (b))* *HK$'000*
Cost at 1 January	—
Additions during the year	4,000
Amortisation provided during the year	(200)
	3,800
At 31 December 2011	
Cost	4,000
Accumulated amortisation	(200)
Net carrying amount	3,800

Notes:

(a) Other intangible assets, which were acquired through business combination, represented (i) trademark for ConnecTouch; (ii) three software copyrights of its software with the National Copyright Administration of the PRC; (iii) a patent for invention rights; and (iv) the development costs of certain application softwares for related industry. The useful life of other intangible assets is 5 years.

(b) Intangible asset represents computer software acquired from an independent third party during the year ended 31 December 2011. The computer software, with a useful life of 5 years, is used for developing database of customer list in the fashion business segment.

16. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2012 ***HK$'000***	2011 *HK$'000*
Club membership, at cost	**590**	590

NOTES TO THE FINANCIAL STATEMENTS

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17. DEFERRED TAX

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

Group

	Deductible temporary differences	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**40,207**	—
Deferred tax credited to the income statement during the year *(note 9)*	**—**	40,207
At 31 December	**40,207**	40,207

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

	Deferred revenue	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**—**	—
Acquisition of subsidiaries *(note 34)*	**152**	—
At 31 December	**152**	—

18. GOODWILL

Group

	2012	2011
	HK$'000	*HK$'000*
At 1 January 2012	**—**	—
Acquisition of subsidiaries *(note 34)*	**290,778**	—
At 31 December 2012	**290,778**	—
At 31 December 2012		
Cost	**290,778**	—
Accumulated impairment	**—**	—
Net carrying amount	**290,778**	—

Goodwill acquired through business combination has been allocation to the information and technologies services segment.

The recoverable amount of the information and technologies services cash-generating unit (the "CGU") has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a 3-year period approved by senior management. The growth rate used by the valuers to extrapolate the cash flows of the CGU for the next 7 years (totalling 10 years) is 10% in the next 5 years and 3% in the next 2 years and 3% beyond that 10-year period. Discount rate used is of 20.1%.

NOTES TO THE FINANCIAL STATEMENTS

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18. GOODWILL *(CONTINUED)*

Assumptions were used in the value in use calculation of the information and technologies cash-generating unit for 31 December 2012. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

As detailed in note 34, pursuant to the Deed of Variation, whereby if the revenue of information and technologies services segment (ie. m3 group) for the year ended 31 December 2012 was less than approximately HK$14,575,000 (equivalent to RMB11,872,000), the difference would be reimbursed by the Vendor by offsetting against the principal amount of the promissory note. Accordingly, goodwill was reduced by HK$13,379,000.

19. INVENTORIES

	Group	
	2012	2011
	HK$'000	*HK$'000*
Raw materials	**1,222**	82
Work in progress	**—**	357
Finished goods	**235**	7
	1,457	446

20. LOAN RECEIVABLES

The Group's loan receivables arose from the money lending business during the year.

Loan receivables bear interest at rates, and with credit periods, mutually agreed between the contracting parties. Each customer has a credit limit. Loan receivables are secured by the pledge of debtors' assets or personal guarantees by the debtors/certain individuals. Overdue balances are reviewed regularly and handled closely by senior management.

	Group	
	2012	2011
	HK$'000	*HK$'000*
Loan receivables	**24,800**	20,974
Classified as non-current assets	**(1,450)**	—
Current assets	**23,350**	20,974

NOTES TO THE FINANCIAL STATEMENTS

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20. LOAN RECEIVABLES *(CONTINUED)*

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Repayable:		
Within 3 months	**14,145**	8,459
3 months to 1 year	**9,205**	12,515
Over 1 year	**1,450**	—
	24,800	20,974
Classified as current assets	**(23,350)**	(20,974)
Non-current assets	**1,450**	—

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**20,700**	20,974
1 to 3 months past due	**4,100**	—
	24,800	20,974

Loan receivables that were neither past due nor impaired relate to certain debtors for whom there was no recent history of default.

Loan receivables that were past due but not impaired relate to an independent debtor. The directors of the Company are of the opinion that no provision for impairment is necessary as the balance is considered fully recoverable.

NOTES TO THE FINANCIAL STATEMENTS

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21. TRADE AND BILLS RECEIVABLES

	Group	
	2012	2011
	HK$'000	*HK$'000*
Trade and bills receivables	**1,839**	1,255
Impairment *(note 6)*	**(129)**	—
	1,710	1,255

Trading of garments and accessories are with credit terms of 30 to 60 days. The Group has a defined credit policy and it varies with the financial strength of individual customers. 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 number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Current	**1,562**	1,177
31-60 days	**—**	40
61-90 days	**22**	37
Over 90 days	**126**	1
	1,710	1,255

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**—**	754
Impairment losses recognised	**129**	—
Impairment losses written back	**—**	(58)
Amount written off as uncollectible	**—**	(696)
At 31 December	**129**	—

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of approximately HK$129,000 (2011: nil) with a carrying amount before provision of approximately HK$129,000 (2011: nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

21. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**1,562**	1,177
Less than 1 month past due	**22**	40
1 to 3 months past due	**—**	38
Over 3 months past due	**126**	—
	1,710	1,255

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

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other receivables	**5,484**	5,602	**120**	120
Impairment	**(764)**	(764)	**—**	—
	4,720	4,838	**120**	120
Prepayments and deposits	**3,255**	3,822	**305**	517
Deposit paid for the acquisition of a subsidiary *(note a)*	**—**	80,000	**—**	—
	7,975	88,660	**425**	637
Classified as non-current asset *(note a)*	**—**	(80,000)	**—**	—
Current portion	**7,975**	8,660	**425**	637

NOTES TO THE FINANCIAL STATEMENTS

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

Note:

(a) On 8 September 2011, the Company and its indirect wholly-owned subsidiary, Sky Treasure Worldwide Limited ("Sky Treasure"), entered into an agreement with an independent third party (the "Vendor") for the acquisition of the entire issued share capital of m3 Technology Development Limited ("m3") at a consideration of HK$398 million. During the year ended 31 December 2011, a deposit of HK$80 million was paid by the Group to the Vendor. The acquisition was completed on 3 September 2012 (note 34).

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**764**	1,328
Impairment losses recognised	**—**	724
Amount written off as uncollectible	**—**	(1,288)
At 31 December	**764**	764

Included in the above provision for impairment of the Group's other receivables is a provision for individually impaired other receivables of HK$764,000 (2011: HK$764,000) with a carrying amount before provision of HK$920,000 (2011: HK$920,000).

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Neither past due nor impaired	**4,720**	4,683	**120**	120
More than 3 months past due	**—**	155	**—**	—
	4,720	4,838	**120**	120

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

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

NOTES TO THE FINANCIAL STATEMENTS

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23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2012	2011
	HK$'000	*HK$'000*
Listed equity investments, at market value:		
Hong Kong	**27,775**	29,038

The above equity investments at 31 December 2011 and 2012 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.

The market value of the Group's equity investments at the date of approval of these financial statements was approximately HK$23,563,000.

Certain listed equity investments of the Group were pledged to secure the trade finance facilities granted to the Group (note 26).

24. CONVERTIBLE NOTE RECEIVABLE

The convertible note receivable contains two components: debt and conversion option components. The debt component is accounted for as loans and receivables, while the conversion option is accounted for as derivative financial instrument.

Movement in the debt components of convertible note receivable during the year are as follows:

	Group
	2012
	HK$'000
At 1 January	**—**
Subscription of convertible note receivable	**2,601**
Imputed interest income	**71**
At December	**2,672**

In October 2012, Victory Chain Investment Limited, a wholly-owned subsidiary of the Group, acquired convertible note issued by Inno-Tech Holdings Limited ("Inno-Tech") with principal amount of HK$3,000,000 at a total consideration of HK$3,060,000. The convertible note is unsecured and bears no interest.

The convertible note entitles the holder thereof to convert into ordinary shares of Inno-Tech at conversion price of HK$0.38 per share (subject to adjustment). The convertible note receivable is convertible into ordinary shares on the second anniversary from the date of the issue. Unless previously redeemed or converted, any amount of the convertible note which remains outstanding on the maturity date shall be redeemed at 100% of the outstanding principal amount of the convertible note. Inno-Tech is entitled to redeem the convertible note prior to the maturity date ("Early Redemption Right").

The debt component of convertible note is measured at amortised cost and the effective interest rate is 10.88% per annum. The conversion option component is presented as conversion option embedded in convertible note receivable in the consolidated statement of financial position, the fair value of which was HK$459,000 and HK$1 at the date of acquisition and at the end of the reporting period. The fair value of the Early Redemption Right is HK$Nil at the date of acquisition and at the end of the reporting period.

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25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**11,287**	35,979	**37**	6,626
Time deposits	**6,235**	6,003	**—**	—
	17,522	41,982	**37**	6,626
Less: Pledged time deposits secured for banking facilities *(note 26)*	**(6,235)**	(6,003)	**—**	—
Cash and cash equivalents	**11,287**	35,979	**37**	6,626

At 31 December 2012, approximately HK$412,000 (2011: HK$756,000) of the Group's cash and bank balances were denominated in Renminbi, which is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26. BANK OVERDRAFTS

	Group	
	2012	2011
	HK$'000	*HK$'000*
Bank overdrafts, secured	**466**	267

The bank overdrafts bear interest at 5.25% per annum and are denominated in Hong Kong dollars.

At 31 December 2012, the Group's trade finance facilities amounting to HK$39,700,000 (2011: HK$59,000,000) granted by the banks were secured by the following:

(a) guarantee given by a director of a subsidiary of HK$13,000,000 (2011: HK$50,000,000);

(b) charges over bank deposits of the Group of HK$6,235,000 (2011: HK$6,003,000) (note 25);

(c) personal guarantees of HK$26,500,000 (2011: HK$59,000,000) and HK$68,000,000 (2011: HK$31,950,000) given by a former director and a non-executive director of the Company, respectively; and

(d) certain listed equity investments of the Group (note 23).

27. TRADE PAYABLES

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Current	**1,646**	—
31-60 days	**334**	932
	1,980	932

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

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**325**	22,920	**—**	266
Receipt in advance	**653**	333	**—**	—
Accruals	**2,451**	4,172	**806**	3,261
	3,429	27,425	**806**	3,527

Other payables are unsecured, non-interest-bearing and have an average terms of three months. As at 31 December 2011, included in other payables was a loan from Mr. Fung Man Chun ("Mr. Fung"), an ex-director of a subsidiary, of HK$22,794,000. The loan from Mr. Fung had no fixed terms of repayment. In September 2012, Mr. Fung and Greater China Mining Resources Limited ("Greater China"), a wholly – owned subsidiary of the Group, entered into a deed of waiver, pursuant to which, Mr. Fung agreed to waive the loan to Greater China. Accordingly, the other payable of approximately HK$22,794,000 was written back to the consolidated income statement.

29. CONVERTIBLE BONDS

Convertible Bond issued in 2010

On 30 March 2010, the Company issued 2% convertible bonds with an aggregate nominal value of HK$1,680,000,000 (the "CB1"). The maturity date of the CB1 is on 30 March 2013. The CB1 was convertible into ordinary shares on or before the third anniversary from the issue date of the convertible bonds at the initial conversion price of HK$0.22 per share, subject to adjustment for dilutive events. The CB1 carries interest at a rate of 2% per annum, which was payable annually in arrears on 30 March. Up to 31 December 2010, the CB1 with nominal value of HK$823,200,000 have been converted, at a conversion price of HK$0.22 and HK$0.044 (as adjusted) per share, into 850,000,000 and 14,459,090,908 ordinary shares, respectively, of HK$0.01 each. The Company had early redeemed part of the CB1 of HK$170,000,000 before the maturity date during the year ended 31 December 2010. The outstanding principal amounts of the CB1 as at 31 December 2010 was HK$686,800,000.

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29. CONVERTIBLE BONDS *(CONTINUED)*

Convertible Bond issued in 2010 *(continued)*

During the year ended 31 December 2011, the Company has early redeemed part of the CB1 with principal amount of HK$320,000,000 before the maturity date. The outstanding principal amounts of the CB1 as at 31 December 2011 was HK$366,800,000 at the adjusted conversion price HK$40.34 per share.

During the year ended 31 December 2012, the Company has early redeemed part of the CB1 with principal amount of approximately HK$131,677,000. In October 2012, the Company and the bondholder entered into an agreement, pursuant to which, the Company early redeemed the CB1 with principal value of approximately HK$217,123,000 by way of issuing a promissory note with principal value of approximately HK$173,698,000, which represents 80% of the outstanding principal amount of the CB1 (note 30(b)).

In May 2012, the bondholder transferred the CB1 with principal amount of HK$18,000,000 to an independent third party (the "New Bondholder"). According to the terms and conditions of the CB1, the New Bondholder is no longer entitled to any redemption and should convert the CB1 into the ordinary shares of the Company at the date of transfer at the adjusted conversion price of HK$36.25 per share. As at the end of reporting period, the related ordinary shares have not yet been issued by the Company, the carrying amounts of the liability component and equity component of the CB1 of HK$15,895,000 and HK$5,523,000, respectively, were transferred to "Shares to be issued" under equity of the Company.

The movement of the liability component of CB1 is as follows:

	Group and Company
	Liability component *HK$'000*
At 1 January 2011	532,107
Interest expense	58,024
Interest paid	(12,169)
Redemption during 2011	(263,458)
Interest paid upon redemption	(2,904)
At 31 December 2011 and 1 January 2012	311,600
Interest expense	33,800
Interest paid	(7,336)
Redemption during 2012	(318,846)
Interest paid upon redemption	(3,323)
Transfer to shares to be issued	(15,895)
At 31 December 2012	—

29. CONVERTIBLE BONDS *(CONTINUED)*

Convertible Note issued in 2012

On 3 September 2012, the Company issued 2% convertible note with principal value of HK$50,000,000 (the "CN1") as a partial consideration for the acquisition of subsidiaries (note 34). The maturity date of the CN1 is the 3rd anniversary of the date of the issue of the CN1. The CN1 are convertible into ordinary shares of the Company during the period from 3 months after the date of issue of the CN1 and expiring on the business day immediately preceding the maturity date at the initial conversion price of HK$0.12 per share, subject to adjustments. The CN1 carries interest at a rate of 2% per annum which is payable semi-annually in arrears of the last day of June and December each year after the date of issue. The Company is entitled to early redeem the CN1 in whole or in part at a price equal the outstanding principal amount plus interest accrued thereon. The CN1 has been split into the liability component and equity component upon initial recognition by recognising the liability component at its fair value and attributing to the equity component by the residual amount. The liability component is subsequently carried at amortised cost. The equity component was presented in equity heading "equity component of convertible bonds".

	Liability component *HK$'000*	**Equity component** *HK$'000*	**Total** *HK$'000*
At 1 January 2012	—	—	—
Issue of CN1	2,497	47,503	50,000
Imputed interest expenses	94	—	94
At 31 December 2012	2,591	47,503	50,094

30. PROMISSORY NOTES

	Group **2012** *HK$'000*
Promissory notes issued *(notes (a) and (b))*	401,698
Fair value change on issuance of promissory notes	(78,325)
Less: shortfall of guaranteed revenue *(note a)*	(13,379)
	309,994
Imputed interest expenses	11,920
	321,914

	Company **2012** *HK$'000*
Promissory note issued *(note (b))*	173,698
Fair value change on issuance of promissory note	(29,906)
	143,792
Imputed interest expenses	5,176
	148,968

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30. PROMISSORY NOTES *(CONTINUED)*

Notes:

(a) On 3 September 2012, Sky Treasure Worldwide Limited ("Sky Treasure"), an indirect wholly-owned subsidiary of the Group, issued an unsecured promissory note with principal value of HK$228,000,000 (the "PN1") as a partial consideration for the acquisition of subsidiaries (note 34).

The PN1 bears interest at 3% per annum and is payable on 3 September 2015 (the "PN1 Maturity Date"). Sky Treasure has the right to redeem in full or in part of the principal amount of the PN1 prior to the PN1 Maturity Date (the "PN1 Early Redemption Right"). The fair values of the PN1 and PN1 Early Redemption Right at the date of issue were approximately HK$179,581,000 and HK$Nil, respectively. As detailed in note 34, pursuant to the Deed of Variation, there was a shortfall of guaranteed revenue of m3 Group of approximately HK$13,379,000, which was deducted from the principal amount of PN1.

The PN1 is subsequently measured at amortised cost, using effective interest rate of 11.52%.

(b) As detailed in note 29, in October 2012, the Company early redeemed the CBI with principal value of approximately HK$217,123,000 by way of issuing a promissory note with principal value of approximately HK$173,698,000 ("PN2"), which represents 80% of the outstanding principal amount of the remaining principal value of CBI. The promissory note bears interest at 4% per annum and payable in the 31st day of December each year. The first payment shall be made on 31 December 2013. The maturity date of the promissory note is 9 October 2015 (the "PN2 Maturity Date"). The Company has the right to redeem in full or in part of the principal amount together with interest accrued thereon at any time prior to the PN2 Maturity Date (the "PN2 Early Redemption Right"). The fair values of PN2 and PN2 Early Redemption Right at the date of issue were approximately HK$143,792,000 and HK$Nil, respectively.

The PN2 is subsequently measured at amortised cost, using effective interest of 11.04%.

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31. SHARE CAPITAL

Authorised:

	No. of shares	*HK$'000*
At 1 January 2011 (HK$0.001 each)	1,500,000,000,000	1,500,000
Share consolidation on 8 March 2011 *(note b)*	(1,425,000,000,000)	—
As at 6 October 2011 before Share Reorganisation (HK$0.02 each)	75,000,000,000	1,500,000
Share Reorganisation on 7 October 2011 *(note e)*	1,425,000,000,000	—
As at 31 December 2011 and 31 December 2012 (HK$0.001 each)	1,500,000,000,000	1,500,000

Issued and fully paid:

	No. of shares	*HK$'000*
At 1 January 2011 (HK$0.001 each)	4,902,466,860	4,902
Issue of shares through placement *(note a)*	980,000,000	980
As at 7 March 2011 before Share Consolidation (HK$0.001 each)	5,882,466,860	5,882
Share consolidation on 8 March 2011 *(note b)*	(5,588,343,517)	—
Issue of shares through placement *(note c)*	58,000,000	1,160
Issue of rights shares *(note d)*	7,746,713,546	154,936
As at 6 October 2011 before Share Reorganisation (HK$0.02 each)	8,098,836,889	161,978
Share Reorganisation on 7 October 2011 *(note e)*	(7,693,895,045)	(161,573)
As at 31 December 2011 and 1 January 2012 (HK$0.001 each)	404,941,844	405
Issue of shares through placement *(note f)*	80,980,000	81
Open offer *(note g)*	1,700,726,454	1,701
As at 31 December 2012 (HK$0.001 each)	2,186,648,298	2,187

Notes:

Movements during the year ended 31 December 2011:

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

31. SHARE CAPITAL *(CONTINUED)*

Notes: (continued)

(c) On 22 March 2011, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a fully underwritten basis, a total of 58,000,000 placing shares to not less than 6 independent placees at a price of HK$0.25 per placing share. The aggregate nominal value of the placing shares under the placing agreement was approximately HK$1,160,000. The net proceeds from the placement of approximately HK$13.9 million would be used for general working capital of the Group.

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

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

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

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

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

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

31. SHARE CAPITAL *(CONTINUED)*

Notes: (continued)

Movements during the year ended 31 December 2012:

(f) On 7 March 2012, the Company has entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place through the placing agent, on a fully underwritten basis, a total of 80,980,000 placing shares to not less than 6 placees at a price of HK$0.20 per placing share. The aggregate nominal value of the placing shares under the placing agreement was approximately HK$81,000. The placing of shares, with net proceeds of approximately HK$15.5 million, was completed on 20 March 2012. The net proceeds from the placement would be used for financing any investment opportunities identified or to be identified by the Company and/or general working capital of the Group.

(g) In July 2012, pursuant to the ordinary resolution passed during the special general meeting of the Company on 29 June 2012, an open offer ("Open Offer") of 1,700,726,454 ordinary shares (the "Offer Shares") was proposed to the shareholders of the Company at the subscription price of HK$0.12 per Offer Share on the basis of seven Offer Shares for every 2 ordinary shares.

The Open Offer was completed on 2 August 2012. The gross proceeds and the net proceeds from the Open Offer were approximately HK$204 million and HK$196 million, respectively. The Company intends to apply such net proceeds from the Open Offer (i) as to HK$100 million for the early redemption of the Convertible Bonds; (ii) as to HK$40 million for the redemption of the promissory note which will be issued upon the m3 Acquisition; (iii) as to HK$20 million for the development of the money lending business; and (iv) as to approximately HK$36 million for working capital of the Group. The usage of HK$40 million as mentioned in (ii) above was changed from the redemption of promissory note to cash payment of HK$40 million for m3 Acquisition (note 34).

On 10 October 2012, the board of directors passed a resolution to change the usage of cash amounting to HK$20 million for the development of the money lending to partial repay the principal and accrued interest of the Group's convertible bonds as requested by the bondholder.

32. RESERVES

(a) Group

(i) Share premium

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

(ii) Capital reserves

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

(iii) Contributed surplus

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

32. RESERVES *(CONTINUED)*

(b) Company

	Share premium* HK$'000 (note 32(a)(i))	Contributed surplus* HK$'000 (note 32(a)(iii))	Employee share option reserves* HK$'000	Equity component of convertible bonds HK$'000	Accumulated losses* HK$'000	Total HK$'000
At 1 January 2011	959,486	350,266	2,453	210,741	(244,675)	1,278,271
Redemption of convertible bonds	—	—	—	(98,190)	41,647	(56,543)
Equity-settled share-options arrangements	—	—	800	—	—	800
Issue of shares through placement	34,795	—	—	—	—	34,795
Capital reduction	—	161,572	—	—	—	161,572
Issue of rights shares	218,963	—	—	—	—	218,963
Total comprehensive income for the year	—	—	—	—	(245,908)	(245,908)
At 31 December 2011 and at 1 January 2012	1,213,244	511,838	3,253	112,551	(448,936)	1,391,950
Issue of convertible bond	—	—	—	47,503	—	47,503
Issue of shares through placement	15,426	—	—	—	—	15,426
Issue of shares through open offer	195,131	—	—	—	—	195,131
Equity-settled share-options arrangements	—	—	334	—	—	334
Redemption of convertible bonds	—	—	—	(112,551)	90,081	(22,470)
Total comprehensive income for the year	—	—	—	—	5,680	5,680
At 31 December 2012	1,423,801	511,838	3,587	47,503	(353,175)	1,633,554

* These reserves accounts comprise the reserves of approximately HK$1,586,051,000 (2011: HK$1,279,399,000) in the statement of financial position of the Company.

Contributed surplus

Contributed surplus of the Company comprised:

(a) credit amount arising from the capital reductions on 2 September 2010 and 7 October 2011 (note 31(e)(ii)); and

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

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

33. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company has a share option scheme ("2002 Share Option Scheme") which was adopted on 27 May 2002. The 2002 Share Option Scheme is valid and effective for a period of ten years. For the better development of the Group, it is important that the Group is able to recruit, retain and motivate high caliber and good quality employees and officers to serve the Group on a long term basis as well as to maintain good relationship with its suppliers, customers and professional advisers. The Group believes that having a share option scheme in place is one of the most attractive means to attract and retain those persons to contribute to the continuous development of the Group. Therefore, the Board will consider the adoption of new share option scheme in the forth coming annual general meeting, which shall replace the 2002 Share Option Scheme that expired on 27 May 2012.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme but the Company may refresh the scheme mandate limit, by the approval of its shareholders in general meeting and the issue of a circular in accordance with the requirements of the Listing Rules, such that the total number of shares in respect of which options may be granted by the Directors under the 2002 Share Option Scheme and any other schemes of the Company shall not exceed 10% of the issued share capital of the Company at the date of approval to refresh such limit. Options previously granted under the 2002 Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised) will not be counted for the purpose of calculation limited as "refreshed". Notwithstanding the aforesaid in this paragraph, the maximum number of shares in respect of which options may be granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. As at 31 December 2012, the total number of shares available for issue under the 2002 Share Option Scheme was Nil (2011: 1,760,616) shares, which represented 0% (2011: 0.6%) of the issued share capital of the Company at that day. During 2012, the Company did not grant any share option under the 2002 Share Option Scheme. The maximum number of shares issued and to be issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in any 12-month period up to the date of grant of the options, would not exceed 1% of the aggregate number of shares in issue unless the grant of such options is specifically approved by the shareholders of the Company in general meeting and a circular is issued in accordance with the requirements of the Listing Rules.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

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

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

At 31 December 2012, a total of 260,547 (2011: 234,115 (as adjusted)) share options were still outstanding under the 2002 Share Option Scheme as follows:

	Grant Date	At 1 January 2012	Adjusted upon open offer as at 25 July 2012	At 31 December 2012	Exercise period	Exercise price per share
Non-executive director						
Mr. Yiu Kowk Ming, Tommy	26.9.2006	43,344	4,894 *(note 1)*	48,238	30.11.2007-25.9.2016	4.66 *(note 1)*
	11.6.2008	52,041	5,876 *(note 2)*	57,917	11.6.2008-10.6.2018	33.19 *(note 2)*
Sub-total		95,385	10,770	106,155		
Other eligible employees	26.9.2006	86,689	9,787 *(note 1)*	96,476	30.11.2007-25.9.2016	4.66 *(note 1)*
	11.6.2008	52,041	5,875 *(note 2)*	57,916	11.6.2008-10.6.2018	33.19 *(note 2)*
		234,115	26,432	260,547		

Notes:

(1) The number and the exercise price of share options which remained outstanding have been adjusted due to open offer of the Company with effect from 25 July 2012 (note 31(g)). The exercise price per share was adjusted from HK$5.18 to HK$4.66.

(2) The number and the exercise price of share options which remained outstanding have been adjusted due to open offer of the Company with effect from 25 July 2012 (note 31(g)). The exercise price per share was adjusted from HK$36.94 to HK$33.19.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

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

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

Employee share option expenses of approximately HK$334,000 (2011: HK$800,000) related to the above grants of share options are charged to the consolidated income statement over the vesting period. Such expenses were determined by the Company based on the Black-Scholes Valuation model with the following assumptions:

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

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

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

At the end of the reporting period, the Company had 260,547 (as adjusted) share options outstanding under 2002 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 260,547 additional ordinary shares of the Company and additional share capital of HK$261.

Subsequent to 31 December 2012, there was no exercise of share options under the 2002 Share Option Scheme.

34. BUSINESS COMBINATION

On 3 September 2012, the Group completed the acquisition of an 100% equity interest (the "Acquisition") in m3 Technology Development Limited ("m3", together with its subsidiaries, collectively the "m3 Group") from an independent third party (the "Vendor"). m3 is principally engaged in the provision of telecommunication and information technology services and the sales of the related products principally in the PRC through its subsidiary, 深圳市泓訊電子科技有限公司 (literally translated as Shenzhen City Hong Xun Electronic and Technology Company Limited). The purchase consideration for the acquisition was HK$398,000,000, satisfied (i) as to HK$120,000,000 by cash; (ii) as to HK$50,000,000 by way of the issue of a convertible note; and (iii) as to HK$228,000,000 by way of the issue of a promissory note.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

34. BUSINESS COMBINATION *(CONTINUED)*

The fair values of the identifiable assets and liabilities of the m3 Group as at the date of acquisition were as follows:

	Notes	2012 HK$'000
Property, plant and equipment	12	99
Intangible assets	15	41,876
Cash and cash equivalents		296
Prepayments and other receivables		4,139
Trade receivables		120
Other payables and accruals		(447)
Trade payables		(508)
Deferred tax liabilities	17	(152)
Total identifiable net assets at fair value		45,423
Goodwill on acquisition	18	290,778
		336,201
Consideration was satisfied by the fair value of:		
Cash		120,000
Convertible bonds	29	50,000
Promissory notes	30	166,201
		336,201

An analysis of the cash flows in respect of the acquisition is as follows:

		HK$'000
Cash consideration		(120,000)
Deposit paid in cash during the year ended 31 December 2011	22	80,000
Cash consideration paid during the year ended 31 December 2012		(40,000)
Cash and cash equivalents acquired		296
Net cash outflow of cash and cash equivalents during the year ended 31 December 2012		(39,704)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

34. BUSINESS COMBINATION *(CONTINUED)*

On 26 March 2013, the Company and its wholly-owned subsidiary, Sky Treasure Worldwide Limited ("Purchaser"), entered into a Deed of Variation with Union Prosper Limited ("Vendor") to amend certain terms of the Share Purchase Agreement as supplemented and varied by a Supplemental Share Purchase Agreement, 2nd Supplemental Share Purchase Agreement, 3rd Supplemental Share Purchase Agreement, 4th Supplemental Share Purchase Agreement, 5th Supplemental Share Purchase Agreement and 6th Supplemental Share Purchase Agreement. The consideration was agreed between the parties by reference to the valuation report of the m3 Group dated 25 June 2012 prepared by Jones Lang LaSalle (the "Valuation Report"). Pursuant to the Deed of Variation, whereby if the m3 Group's revenue for the year ended 31 December 2012 and year ending 31 December 2013 was less than approximately HK$14,575,000 (equivalent to RMB11,872,000) and approximately HK$54,278,000 (equivalent to RMB44,212,000), respectively, the difference will be reimbursed by the Vendor by offsetting against the principal amount of the promissory note. For the year ended 31 December 2012, there was a shortfall of revenue of m3 Group of approximately HK$13,379,000. As a result, the total consideration was reduced by HK$13,379,000 (from fair value of HK$349,580,000 to approximately HK$336,201,000). Accordingly, the principal amount of the promissory note was reduced by HK$13,379,000.

Since the acquisition, the m3 Group contributed approximately HK$1,379,000 to the Group's revenue and approximately HK$3,616,000 to the consolidated loss for the year ended 31 December 2012.

Had the combination taken place at the beginning of the period, the revenue and the loss of the Group would have been approximately HK$18,149,000 and approximately HK$22,634,000, respectively.

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

Save as transactions disclosed in notes 29, 30, 33 and 34 to the financial statements, the Group had no other major non-cash transactions during the years ended 31 December 2011 and 2012.

36. COMMITMENTS

(a) Operating lease commitments

As lessee

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

At 31 December 2012, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land buildings as follows:

	Group	
	2012 ***HK$'000***	2011 *HK$'000*
Within one year	**473**	2,600
In the second to fifth years inclusive	**108**	781
	581	3,381

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

36. COMMITMENTS *(CONTINUED)*

(b) Other commitments

	Group	
	2012	2011
	HK$'000	*HK$'000*
Acquisition of a subsidiary	**60,000**	318,000

As detailed in note 38(a), the Group had commitment in relation to the acquisition of Chang Ye of HK$60,000,000 as at 31 December 2012.

As at 31 December 2011, the Group had commitment in relation to the acquisition of the m3 Group of HK$318,000,000.

(c) Capital commitments

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Purchase of property, plant and equipment	**48**	75
Authorised, but not contracted for:		
Construction cost for the mining infrastructure	**641,000**	475,000

37. RELATED PARTY TRANSACTIONS

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

	2012	2011
	HK$'000	*HK$'000*
Interest paid to a related company *(note (i))*	**—**	5
Purchase from a related company *(note (ii))*	**—**	90
Management fee paid to a related company *(note (ii))*	**840**	900
Commission income received from a related company *(note(ii))*	**(31)**	(48)

Notes:

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

(ii) Mr. Yiu Kwok Ming, Tommy, a non-executive director of the Company at the end of reporting period, is also a director of Ching Hing Weaving Dyeing and Printing Factory Limited, the related company. These transaction was conducted in accordance with the terms agreed between the Group and the related company.

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Members of key management during the year comprised only five (2011: five) executive directors and one (2011: Nil) non-executive directors whose remuneration is set out in note 8 to the financial statements.

38. EVENTS AFTER THE REPORTING PERIOD

In addition to the information detailed elsewhere in these financial statements, the Group had the following events after the reporting period.

(a) On 18 October 2012, the Company and its wholly-owned subsidiary, Legend Whistler Limited ("Legend Whistler"), entered into an agreement with an independent third party (the "Vendor") for the acquisition of the entire issued share capital of Chang Ye Holdings Limited ("Chang Ye") at a consideration of HK$60 million ("Chang Ye Acquisition"). Chang Ye is a company incorporated in the British Virgin Islands, and with its subsidiary, and principally engages in the trading of furniture and provision of interior design services. The consideration would be satisfied by way of the issue of a promissory note with principal value of HK$60 million. As at 31 December 2012, the Group has capital commitment in relation to the acquisition of Chang Ye of HK$60 million. The acquisition of Chang Ye was completed in January 2013.

(b) On 13 January 2013, Paradise Shadow Limited, a wholly-owned subsidiary of the Company, and Macau Guanwei Limited, an independent third party, entered into a memorandum of understanding (as supplemented by a supplemental memorandum of understanding dated 18 January 2013) in relation to the acquisition of Zhongshan Jiaguan Limited ("Zhongshan Jiaguan") with an aggregate consideration of not less than HK$1,000,000,000. Zhongshan Jiaguan is a company incorporated in the PRC and principally engages in the production of wood and plastic products.

(c) On 7 February 2013, the name of the Company was changed from Bao Yuan Holdings Limited to China Household Holdings Limited and the secondary name of the Company from "寶源控股有限公司" to "中國家居控股有限公司".

(d) On 18 March 2013, Zhongshan City Prado Style Household Company Limited ("Zhongshan Prado"), a wholly-owned subsidiary of the Group after the acquisition of Chang Ye (note 38(a)), and New Oasis Wood Co. Limited ("New Oasis") entered into a legally binding strategic cooperation agreement. Pursuant to which, New Oasis agrees to act as the agent of Zhongshan Prado to promote the household products of Zhongshan Prado. The agency fee to be paid by Zhongshan Prado will not exceed 1% of the transaction value. In addition, Zhongshan Prado agrees to supply household products to New Oasis during the years 2013 and 2014, and New Oasis agrees to procure household products from Zhongshan Prado with the value of not less than RMB300,000,000 per year.

However, on 3 April 2013, Zhongshan Prado and New Oasis entered into a termination agreement to terminate the strategic cooperation agreement set out above with immediate effect. Prior to the aforementioned termination agreement, there is no transaction between Zhongshan Prado and New Oasis.

On 23 April 2013, Zhongshan Prado and New Oasis entered into another strategic cooperation agreement ("Cooperation Agreement II"). Pursuant to which, New Oasis agrees to act as the agent of Zhongshan Prado to promote the household products of Zhongshan Prado. The agency fee to be paid by Zhongshan Prado will not exceed 0.1% of the transaction value and total amount will not be more than HK$1,000,000. In addition, Zhongshan Prado agrees to supply household products to New Oasis during the years 2013 and 2014 with the value of not less than RMB100,000,000 per year. New Oasis agrees to procure household products at an annual cap of RMB150,000,000 and RMB180,000,000 for each of the years ending 31 December 2013 and 31 December 2014, respectively. New Oasis is a connected person as defined in the Listing Rules, therefore, the entering into of the Cooperation Agreement II and the transactions contemplated thereunder constitute continuing connected transactions for the Company. The continuing connected transaction is subject to independent shareholders' approval.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

31 December 2012
Financial assets

	Financial assets at fair value through profit or loss-held for trading *HK$'000*	Loan and receivables *HK$'000*	Available-for-sale financial assets *HK$'000*	Total *HK$'000*
Available-for-sale financial investment	—	—	590	590
Convertible note receivable	2,672	—	—	2,672
Loan receivables	—	24,800	—	24,800
Trade and bills receivables	—	1,710	—	1,710
Financial assets included in other receivables, prepayments and deposits	—	5,123	—	5,123
Equity investments at fair value through profit or loss	27,775	—	—	27,775
Conversion option embedded in convertible note receivable	1	—	—	1
Pledged time deposits	—	6,235	—	6,235
Cash and cash equivalents	—	11,287	—	11,287
	30,448	49,155	590	80,193

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Bank overdrafts, secured	466
Trade payables	1,980
Financial liabilities included in other payables and accruals	2,776
Liability component of convertible bonds	2,591
Promissory notes	321,914
	329,727

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

39. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

Group *(continued)*

31 December 2011
Financial assets

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

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Bank overdrafts, secured	267
Trade payables	932
Financial liabilities included in other payables and accruals	27,092
Liability component of convertible bonds	311,600
	339,891

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

39. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

Company

Financial assets

	2012 Loans and receivables *HK$'000*	2011 Loans and receivables *HK$'000*
Financial assets included in other receivables, prepayments and deposits	**123**	120
Cash and cash equivalents	**37**	6,626
	160	6,746

Financial liabilities

	2012 Financial liabilities at amortised cost *HK$'000*	2011 Financial liabilities at amortised cost *HK$'000*
Financial liabilities included in other payables and accruals	**806**	3,527
Liability component of convertible bonds	**2,591**	311,600
Promissory notes	**148,968**	—
	152,365	315,127

40. FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value of financial instruments

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

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

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

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

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

Fair value hierarchy

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

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

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

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

Assets measured at fair value

Group

As at 31 December 2012

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Equity investments at fair value through profit or loss	**27,775**	**—**	**—**	**27,775**
Conversion option embedded in convertible note receivable	**—**	**1**	**—**	**1**
	27,775	**1**	**—**	**27,776**

As at 31 December 2011

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

The Company did not have any financial assets measured at fair value at 31 December 2012 (2011: Nil).

Liabilities measured at fair value

The Group and the Company did not have any financial liabilities measured at fair value at 31 December 2012 (2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise convertible bonds and promissory notes. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

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

Interest rate risk

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

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in Renminbi ("RMB"), Euro ("EUR"), United States Dollars ("USD") and Hong Kong dollar ("HKD"). Approximately 70% (2011: 96.6%) of the Group's sales are denominated in currencies other than the functional currency of the operating units marking the sales, and almost 100% (2011: 100%) of costs are denominated in currencies other than the units' functional currency.

The Group does not have significant foreign currency risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in RMB, USD and HKD, of which the exchange rate of USD was quite stable during the years ended 31 December 2011 and 2012.

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

	Increase/ (decrease) in exchange rate *%*	Decrease/ (increase) in loss before tax *HK$'000*	Increase/ (decrease) in equity* *HK$'000*
31 December 2012			
If HKD weakens against RMB	**5%**	**495**	**—**
If HKD strengthens against RMB	**(5%)**	**(495)**	**—**
If HKD weakens against USD	**5%**	**101**	**—**
If HKD strengthens against USD	**(5%)**	**(101)**	**—**
31 December 2011			
If HKD weakens against RMB	5%	177	—
If HKD strengthens against RMB	(5%)	(177)	—
If HKD weakens against USD	5%	31	
If HKD strengthens against USD	(5%)	(31)	

* Excluding retained earnings/accumulated losses

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

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

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The Group reviews the recoverable amount of each individual debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

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

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

Liquidity risk

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

	On demand or no fixed terms of repayment *HK$'000*	Less than 3 months *HK$'000*	1 to 5 years *HK$'000*	Total *HK$'000*
2012				
Bank overdrafts, secured	**466**	**—**	**—**	**466**
Trade payables	**—**	**1,980**	**—**	**1,980**
Other payables and accruals	**2,776**	**—**	**—**	**2,776**
Convertible bonds	**—**	**52**	**2,539**	**2,591**
Promissory notes	**—**	**—**	**321,914**	**321,914**
	3,242	**2,032**	**324,453**	**329,727**
2011				
Bank overdrafts, secured	267	—	—	267
Trade payables	—	932	—	932
Other payables and accruals	27,027	65	—	27,092
Convertible bonds	—	6,232	305,368	311,600
	27,294	7,229	305,368	339,891

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

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

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as equity investments at fair value through profit or loss (note 23) as at 31 December 2012. The Group's listed investments are listed in Hong Kong and are valued at quoted market prices at the end of the reporting period.

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

	Carrying amount of equity investments *HK$'000*	**Change in the Group's loss before tax** *HK$'000*	**Change in the Group's equity*** *HK$'000*
2012			
Investments listed in:			
Hong Kong — equity investments at fair value through profit or loss	**27,775**	**1,389**	**—**

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

* Excluding accumulated losses

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

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

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

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

	2012 ***HK$'000***	2011 *HK$'000*
The gearing ratios as at the end of reporting periods were as follows:		
Bank overdrafts, secured	**466**	267
Trade payables	**1,980**	932
Other payables and accruals	**3,429**	27,425
Promissory notes	**321,914**	—
Less:		
Pledged time deposits	**(6,235)**	(6,003)
Cash and cash equivalents	**(11,287)**	(35,979)
Net debt	**310,267**	(13,358)
Liability component of convertible bonds	**2,591**	311,600
Equity attributable to owners of the Company	**1,650,518**	1,429,023
Total capital	**1,653,109**	1,740,623
Total capital and net debt	**1,963,376**	1,727,265
Gearing ratio	**16%**	N/A

42. COMPARATIVE AMOUNTS

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

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2013.

FIVE YEAR SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. The amounts for each year in the five year financial summary have been re-presented if the operation discontinued during the previous year had been discontinued at the beginning of the prior years.

	2012 ***HK$'000***	2011 *HK$'000*	2010 *HK$'000*	2009 *HK$'000*	2008 *HK$'000*
RESULTS					
Continuing operations					
Revenue	**17,286**	25,711	198,062	220,320	287,021
Loss before tax	**(19,241)**	(243,198)	(76,462)	(7,341)	(24,862)
Income tax (expense)/credit	**(749)**	39,521	(585)	(540)	(2,135)
Loss for the year from continuing operations	**(19,990)**	(203,677)	(77,047)	(7,881)	(26,997)
Discontinued operation					
Loss for the year from discontinued operation	**—**	—	(995)	(4,081)	(16,315)
Loss for the year	**(19,990)**	(203,677)	(78,042)	(11,962)	(43,312)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**2,000,164**	1,768,847	1,844,917	132,597	149,468
Total liabilities	**(333,428)**	(342,182)	(570,354)	(78,663)	(84,857)
Shares to be issued	**(21,418)**	—	—	—	—
Non-controlling interests	**5,200**	2,358	2,537	(4,768)	(3,631)