2013 Annual Report

Online And Offline Operation Integration

OAO運營一體化

中國家居控股有限公司
China Household Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 692)

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive directors:

Mr. Wong Man Pan
(appointed as Chairman on 1 February 2013)
Mr. Li Zhixiong *(appointed on 18 November 2013)*
Mr. Tsang King Sun *(resigned on 22 November 2013)*
Mr. Fu Zhenjun
Ms. Tsui Kwok Yin, Czarina *(retired on 28 June 2013)*
Mr. Kuang Yuanwei *(appointed on 1 February 2013)*

Non-executive directors:

Mr. Yiu Kwok Ming, Tommy
Mr. Xie Jianming *(appointed on 20 May 2013)*
Mr. Zhu Qi *(appointed on 20 May 2013)*

Independent non-executive directors:

Mr. Liang Jin An *(retired on 28 June 2013)*
Mr. Ng Lok Kei *(retired on 28 June 2013)*
Mr. Chan Hon Yuen *(resigned 28 June 2013)*
Mr. To Yan Ming, Edmond
Mr. Kaneko Hiroshi
Dr. Loke Yu *(appointed on 9 August 2013)*
Mr. Lin Xuebin *(appointed on 9 August 2013)*

COMPANY SECRETARY

Mr. Tsang King Sun

SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

Elite Partners CPA Limited
Certified Public Accountants
Suites 2B-4A, 20th Floor
Tower 5, China Hong Kong City
33 Canton Road
Tsim Sha Tsui
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of Communications Co., Limited
Bank of China (Hong Kong) Limited

LEGAL ADVISORS

King and Wood Mallesons
Tso Au Yim & Yeung
Tang Tso & Lau

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 2013.

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: Nil).

FINANCIAL RESULTS

The global economy has struggled to sustain economic momentum since the recent global recession. Emerging economies continue to expand, but growth has moderated. Nevertheless, our continuous and relentless efforts have brought us an encouraging result for the year with margin improvement and also better profitability.

During the year under review, the Group has recognised a profit attributable to the owners of the Company of approximately HK$159,296,000, as compared with a net loss of approximately HK$16,438,000 in last year. The earning per share for the year ended 31 December 2013 was HK$0.064. Such increase in net profit was mainly due to the positive turnover of new trading of household furniture business.

The Group turnover was approximately HK$939,789,000, compare with the corresponding figure of approximately HK$17,286,000 in the last year. The outstanding performance was largely attributable to the new trading of household furniture business which reported a turnover of approximately HK$922,361,000 during the year. In spite of the slower growth momentum of China's economy, the Group recorded a satisfactory growth in household furniture sales, which was mainly driven by the successful strategic acquisition in the beginning of the year and the continuous enhancement of PRC retail network. The trading network represented the Group's most significant source of turnover and core operating profit.

Distribution costs including costs related to sales and marketing functions of the Group were normally varied proportionally with the revenue. An obviously increment in distribution costs was in line with the increase in turnover. Administrative expenses generally included costs related to the supporting functions of the Group. During the year under review, the administrative expenses increased by 70.5% to approximately HK$96,672,000. The level of total operating expenses increased is mainly reflecting the related expenses for issuances of strict bond, provision of bad debt and in total staff benefits paid to the Directors and administrative staff due to the development of the household furniture business.

In 2010, the Group issued convertible bonds in a principal amount of HK$1,680,000,000 as the consideration for the acquisition of an iron and titanium dioxide mine. In 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$173,700,000. On 9 July 2013, the Group repaid the promissory note in the aggregate amount of HK$71,916,160 by the issue of convertible bonds. The principal amount of the convertible bond is approximately HK$71,916,160. The Group considered that the repayment of the promissory note by issuing of the convertible bond would enhance a better financial position.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

Household Furnishing

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 household furnishing solutions market with growth potential and to generate diversified income and addition cash flow. The group will keep moving forward in light of the ever-changing business environment with an aim to achieve steady and sustainable growth.

In the efforts of fighting against the cost increase and the cost improvement, such as bargaining for lower price of raw material to lessen the impact of price increase, The sales of household furnitures segment recorded a turnover of approximately HK$922,361,000 for the year ended 31 December 2013. The Group will continuously monitor the production progress of our suppliers in order to ensure the product qualities and the production base with lower costs to further maximize the return of the household furnishing business.

Sale of Fabrics, Garments and Accessories

During the year under review, the recovery of the global economy remained extremely slow. The persistent sovereign debt crisis and shrinking economy in the Euro Zone continued to hinder consumer confidence and consumption. In US, though the job and housing markets were improving, customers were still cautious in procurement until there was stronger evidence of a full recovery. Therefore, the overall industry has been under great pressure due to weak demand from oversea markets, also the higher price of domestic cotton and rising labor costs, which lead to a significant slowdown in the growth rate of the industry. The turnover of the garment business plummeted by 32% to approximately HK$4,309,000 for the year ended 31 December 2013 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 2015.

During the year under review, the mining business recorded a loss of approximately HK$3,149,000.

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, and the estimated iron and titanium dioxide as of 31 December 2013 are set out in the table above.

Fashion design

Fashion business in particular, which is comparatively sensitive to economic conditions and consumer confidence continued to adversely impacted by the difficult economic climate. 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 approximately HK$3,017,000, which was mainly attributable to the administrative expenses.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

Trading in securities

Although volatility of the market gave pressure on the performance of the Group's securities investments, the overall improvement of the market sentiment during the year improved the performance of the Groups securities investments. For the year ended 31 December 2013, the Group recorded approximately HK$42,512,000 unreralized gain arising from fair value changes of investments held for trading. During 2013, loss arising from trading of securities was approximately HK$464,000. It is expected that certain issues will lead to the fluctuation of the market.

Money lending business

The money lending business segment generated interest income of approximately HK$1,937,000 for the year ended 31 December 2013, representing a 64% decrease over the corresponding figure of approximately HK$5,309,000 in the last year.

The decrease of interest income is due to the more cautious approach taken by the management in the lending policy.

Information and technologies business

The information and technological innovative business is a new segment of the Group's business since 2012. Despite of the challenging economic environment and competitive rivalry within the industry, the information and technologies business segment recorded an income of approximately HK$9,979,000 for the year ended 31 December 2013.

As a technology company, the Group recognizes the importance of continuous and focused research and development. The group will continue to develop and strengthen the research and development capabilities and the intellectual property portfolio.

Prospect and Outlook

The prospect of household furnishing business is still looking optimistic since urbanization is top priority of the Chinese Government in its 5 year plan. Millions of households are expected to migrate from the rural areas into the country townships. This translates into continuous demand for housing units and furniture in the lower tier cities. The Group will continue to strengthen its position in the medium to high-end household furnishing market with its plan to explore opportunities on distribution network expansion, as well as collaboration with property developers for household furnishing projects. The Group will actively participate in various international furniture exhibitions and marketing promotions and strengthen its design capacity.

The market conditions of sale 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. Affected by tight fiscal and financial condition, domestic demand was low and customer confidence was depressed. 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.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

In view of the global investment environment, 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. The Group will remain cautious about 2014 Hong Kong stock market performance. In 2014, China's economy will start to feel the pain of reform. Economic slowdown, rising inflation, QE tapering as well as increasing interest rates will put a drag on market performances. As such, the Group will selectively and prudently invest in the dynamic environment ahead.

The rise in global population, growth in the Chinese economy, urbanization of the Asian countries and the increasing requirements in the developed countries have created an unprecedented demand of minerals and metals. The mining sector is expected to experience modest growth in 2014, with forecasts suggesting an improvement on 2013. Although the prices of most metals have decline, global production is expected to increase due to new projects and expansion coming online along with the resumption of suspended projects. Nonetheless, the Group will keep abreast of changing market conditions and will adjust its business strategies to come up with opportunities for the mining business.

There are lots of challenges in the money lending service where the Group operates, including the implementation of various macroeconomic austerity measures by the Hong Kong Government to cool down the property market, the increase of the interest rate and the double stamp duty appreciation, etc. With the downtrend in the property and capital market, demand for consumer finance is expected to decrease. The operating environment will be burdened with these factors. Hence, there will be a more approach taken by the management in the lending policy.

Changes in market conditions caused by new technologies, emergence of new competitors, consolidations among our customers and competitors as well as change in regulatory requirements can bring volatilities to our business. Meeting all these challenges require consistence operational planning and shrewd execution and investment in innovative and enhance product mix that serves the needs of our customers globally. Going forward, the Group will continue to focus on innovative communication and customize service to achieve high reliability and integrity.

Going forward, the Group will continue its prudent approach in investing complementary business that have good prospect and also keep reviewing the existing business in order to strengthen the synergy effect within the Group.

Liquidity and Financial Resources

At 31 December 2013, the Group had total assets of approximately HK$3,140,554,000 which were financed by total liabilities of approximately HK$953,286,000 and equity of approximately HK$2,187,268,000. Accordingly, the Group's ratio of debts to total assets and debts to equity are 30% (2012: 16.7%) and 44% (2012: 20.0%), respectively.

The Group generally financed its operation by internal cash resources, bank financing and bond issuance. At 31 December 2013, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about approximately HK$39,332,000 (of which about approximately HK$1,046,000 was pledged with banks for banking facilities for the Group) and unutilised trade finance banking facilities for a total of about approximately HK$19,819,000, which we consider sufficient for normal daily operation and expansion in 2014.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

At 31 December 2013, the Group issued the bonds with an aggregate principal amount of HK$223,000,000. The coupon rate of these bonds is ranged from 5% to 7.5% per annum with maturity date from September 2015 to December 2021.

CAPITAL STRUCTURE

During the year ended 31 December 2013, the convertible notes amounted to HK$238,800,000 were converted into 579,666,666 ordinary shares of the Company.

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

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

At 31 December 2013, the Group had no contingent liabilities identified, and its bank deposits of approximately HK$1,046,000 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 2013, the Group employed about 556 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$21,646,000. 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 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$60,000,000. The deal was completed on 3 January 2013. Upon the completion, the Group issued promissory notes in principal amount of HK$60,000,000 as consideration. Afterward, the Group has entered into new principally engaged trading of household furniture and provision of interior design services.

On 23 September 2013, Bright Intentions Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party for the acquisition of the issued share capital of Kotewall Holdings Limited and its subsidiaries (the "Kotewall Group") at a consideration of HK$143,000,000. The deal was completed on 11 October 2013. Upon the completion, the Group issued the convertible bonds in principal amount of HK$143,000,000 as consideration. The Kotewall Group holds the land use right of a piece of land with a total site area of about 6,666 square meter, located in the commercial district of Shenwan, Banfu, Zhongshan City, Guangdong Province, the PRC and 2 commercial buildings erected thereon, which were completed in about 2010 (the "Properties"). The Group intended to utilize the Properties as the core office in Zhongshan.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

On 7 August 2013, Success Base Management Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party for the acquisition of the entire issued share capital of Red Hero International Limited and its subsidiaries ("Red Hero Group") at a consideration of HK$480,000,000. The deal was completed on 31 December 2013. Upon the completion, the Group issued the convertible bonds in principal amount of HK$480,000,000 as consideration and the principal amount of convertible bonds is subject to the adjustment of the amount of profit guarantee for the relevant profit generated period. The Group believes that the network of the Red Hero Group with the household decoration companies will create synergy and help to establish a solid business network in the field of trading of furniture and provision of interior design services in the PRC.

On 13 May 2013, Paradise Shadow Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party for the acquisition of the entire issued share capital of Kassade Investment Limited and its subsidiaries (the "Kassade Group") at a consideration of HK$100,000,000. The Kassade Group will be principally engages in manufacturing of floor tiles, various wood frames and other household wood products. The consideration would be satisfied by way of the issue of promissory note of HK$100,000,000 subject to the adjustment of the amount of profit guarantee for the relevant profit generated period.

As at 31 December 2013, the Group has other commitment in relation to the acquisition of the Kassade Group of HK$100,000,000. The acquisition of the Kassade Group is still under process up to the date of approval of this annual report.

On 26 July 2013, Kingston Development Limited, a wholly-owned subsidiary of the Company entered into an agreement with the independent third party for the acquisition of the entire issued share capital of Polar Sunshine Wood Holdings Company Limited and its subsidiary (the "Polar Sunshine Group") at a consideration of HK$380,000,000. The Polar Sunshine Group will be principally engaged in trading of heating wooden household products and other basic materials for heating wooden household products. The consideration would be satisfied by the way of the issue of the convertible bonds with principal amount of HK$380,000,000 subject to the adjustment of the amount of profit guarantee for the relevant profit generated period.

As at 31 December 2013, the Group has other commitment in relation to the acquisition of the Polar Sunshine Group of HK$380,000,000. The acquisition of the Polar Sunshine Group is still under process up to the date of approval of this annual report.

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, 27 March 2014

PROFILE OF THE MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wong Man Pan, aged 33, was appointed as an executive director on 6 October 2010. Mr. Wong was appointed as the chairman of the Company on 1 February 2013. Mr. Wong serves as the members of the Remuneration Committee and Nomination Committee. 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 9 years.

Mr. Li Zhixiong, aged 40, was appointed as executive director on 18 November 2013. He had served as an executive director of Sustainable Forest Holdings Limited (stock code: 723), a listed company in Hong Kong from 2 September 2011 to 5 February 2013. Mr. Li has extensive experience in the Household business including over 20 years of manufacturing and sales experience of household products in China.

Mr. Fu Zhenjun, aged 44, 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.

Mr. Kuang Yuanwei, aged 51, 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 DIRECTORS

Mr. Yiu Kwok Ming, Tommy, aged 52, 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.

Mr. Xie Jianming, aged 69, was appointed as non-executive director on 20 May 2013. He has over 30 years of experience in politics, focusing on the economic analysis and co-ordination of the corporation. From 1997 to 2005, he was the Chairman of Guangdong Provincial Railway Group Co., Ltd.（廣東省鐵路集團有限公司）. From 2005 to 2008, he was the vice Chairman of Guangdong Provincial Communication Group Company Limited（廣東省交通集團有限公司）. From 2008 until now, he serves as an executive Vice president and Secretary General of Guangdong Transportation Association（廣東省交通運輸協會）.

Mr. Zhu Qi, aged 68, was appointed as non-executive director on 20 May 2013. He is a senior accountant and politician, focusing on charity and accounting field of risk assessment. From 1994 to 2006, he was the General Manger of Guangdong Second Light Industry Group Corporation（廣東二輕工業集團公司）. From 2006 to 2008, he was a CPPCC (Chinese People's Political Consultative Conference) member of Guangdong Province. From 2006 until now, he serves as the vice president of Orphan Education Society Guangdong（廣東公益恤孤助學促進會）, the adviser of Guangdong Think Tank Council（廣東智庫促進會）and the permanent honorary president of Guangdong Furniture Association（廣東省傢俱協會）.

PROFILE OF THE MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kaneko Hiroshi, aged 49, was appointed as an independent non-executive director on 5 November 2012. Mr. Kaneko serves as the members of the Audit Committee, Remuneration Committee and Nomination Committee. 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 42, was appointed as an independent non-executive director on 24 April 2012. Mr. To serves as the Chairman of the Remuneration Committee, Chairman of Nomination Committee and the member of the Audit Committee. 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.

Dr. Loke Yu alias Loke Hoi Lam (陸海林), aged 64, was appointed as an independent non-executive director on 9 August 2013. Dr. Loke serves as the Chairman of the Audit Committee and a member of the Nomination Committee of the Company. Dr. Loke has over 38 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from Universiti Teknologi Malaysia and a Doctor of Business Administration degree from University of South Australia. He is a Fellow of The Institute of Chartered Public Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; He is also an Associate member of The Hong Kong Institute of Directors; The Hong Kong Institute of Chartered Secretaries. He is currently the company secretary of Minth Group Limited and serves as an independent non-executive director of the following companies whose shares are listed on the Stock Exchange: China-Tiande Group Limited, Vodone Limited, Matrix Holdings Limited, Sino Distillery Group Limited, China Fire Safety Enterprise Group Limited, Winfair Investment Company Limited, SCUD Group Limited, Zhong An Real Estate Limited and Tianjin Development Holdings Limited.

Mr. Lin Xuebin, aged 52, was appointed as an independent non-executive director on 9 August 2013. He has over 20 years of experience in politics and cultural circles. He was a CPPCC (Chinese People's Political Consultative Conference) member of Wuchuan City, Secretary General of Wuchuan Shenzhen Chamber of Commerce（吳川深圳商會）and Deputy Director-General of Department of Cultural Affairs of Wuchuan City（吳川市文化局）.

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.

Throughout the year ended 31 December 2013, the Company has complied with the code provisions set out in the Corporate Governance Code ("the CG Code") contained in Appendix 14 to the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for certain deviations specified with considered reasons as disclosed in this annual report.

DEVIATION FROM 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, Mr. To Yan Ming, Edmond and Mr. Kaneko Hiroshi, the non-executive Directors, were unable to attend the annual general meeting of the Company held on 28 June 2013 (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 four executive directors, namely Mr. Wong Man Pan (chairman), Mr. Li Zhixiong (Note 1), Mr. Fu Zhenjun and Mr. Kuang Yuanwei (Note 4) and three non-executive directors, namely Mr. Yiu Kwok Ming, Tommy, Mr. Xie Jianming (Note 5) and Mr. Zhu Qi (Note 6) and four independent non-executive directors, namely Mr. To Yan Ming, Edmond (Note 10), Mr. Kaneko Hiroshi (Note 11) , Dr. Loke Yu (Note 12) and Mr. Lin Xuebin (Note 13). 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 10 to 11 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

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide a comprehensive induction package covering the summary of the responsibilities and legal obligations of a director of a Hong Kong listed company, the Company's constitutional documents and the Guides on Directors' Duties issued by the Companies Registry to each newly appointed Director to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements.

The company secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials, and the legal advisers of the Company prepare and provide the Directors with detailed interpretations and analysis on the revised contents for them to understand the latest developments in a timely and accurate manner and to perform their duties in accordance with relevant laws and regulatory requirements. All Directors of the Company (namely Mr. Wong Man Pan, Mr. Li Zhixiong, Mr. Fu Zhenjun , Mr. Kuang Yuanwei, Mr. Yiu Kwok Ming, Tommy, Mr. Xie Jianming, Mr. Zhu Qi, Mr. To Yan Ming, Edmond, Mr. Kaneko Hiroshi, Dr. Loke Yu and Mr. Lin Xuebin) have participated in relevant trainings, and were provided with the above information for further development and update on their knowledge and skills, which in turn ensures that they could make adequate and suitable contributions to the Board.

BOARD DIVERSITY POLICY

During the year, the Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

One hundred plenary board meetings, one annual general meeting and four 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	95/95	1/1	3/4
Mr. Li Zhixiong *(Note 1)*	19/19	0/0	0/1
Mr. Tsang King Sun *(Note 2)*	27/27	1/1	3/3
Mr. Fu Zhenjun	81/88	0/1	0/4
Ms. Tsui Kwok Yin, Czarina *(Note 3)*	12/17	0/1	2/2
Mr. Kuang Yuanwei *(Note 4)*	78/87	0/1	1/2
Non-executive directors			
Mr. Yiu Kwok Ming, Tommy	2/2	0/1	0/4
Mr. Xie Jianming *(Note 5)*	0/0	1/1	0/1
Mr. Zhu Qi *(Note 6)*	0/0	1/1	0/1
Independent non-executive directors			
Mr. Liang Jin An *(Note 7)*	2/2	0/1	0/2
Mr. Ng Lok Kei *(Note 8)*	2/2	0/1	0/2
Mr. Chan Hon Yuen *(Note 9)*	2/2	0/1	0/2
Mr. To Yan Ming, Edmond *(Note 10)*	14/14	0/1	0/4
Mr. Kaneko Hiroshi *(Note 11)*	14/14	0/1	0/4
Dr. Loke Yu *(Note 12)*	12/12	0/0	0/2
Mr. Lin Xuebin *(Note 13)*	12/12	0/0	0/2

CORPORATE GOVERNANCE REPORT

Notes:

1. Appointed as executive director with effect from on 18 November 2013
2. Resigned as executive director, and ceased to be the member of Nomination Committee with effect from 22 November 2013
3. Retired as executive director with effect from 28 June 2013
4. Appointed as executive director with effect from 1 February 2013
5. Appointed as an non-executive director with effect from 20 May 2013
6. Appointed as an non-executive director with effect from 20 May 2013
7. Retired as an independent non-executive director, and ceased to be the Chairman of Remuneration Committee and the members of the Audit Committee and Nomination Committee with effect from 28 June 2013
8. Retired as an independent non-executive director, and ceased to be the members of the Audit Committee, Remuneration Committee and Nomination Committee with effect from 28 June 2013
9. Resigned as an independent non-executive director, and ceased to be the Chairman of Audit Committee, Chairman of Nomination Committee and the member of the Remuneration Committee with effect from 28 June 2013
10. Appointed as the Chairman of Remuneration Committee and Chairman of Nomination Committee with effect from 9 August 2013
11. Appointed as members of Remuneration Committee, Nomination Committee and Audit Committee with effect from 9 August 2013
12. Appointed as an independent non-executive director, Chairman of Audit Committee and member of Nomination Committee with effect from 9 August 2013
13. Appointed as an independent non-executive director with effect from 9 August 2013

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.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

At 31 December 2013, the Audit Committee comprises three independent non-executive directors, namely Dr. Loke Yu (Chairman of the Committee) (Note 12), Mr. To Yan Ming, Edmond and Mr. Kaneko Hiroshi (Note 11). Two meetings were held during the year.

Members	Number of Audit Committee meetings attended/held
Independent non-executive directors	
Mr. Chan Hon Yuen *(Note 9)*	0/1
Mr. Ng Lok Kei *(Note 8)*	1/1
Mr. Liang Jin An *(Note 7)*	1/1
Mr. To Yan Ming, Edmond	2/2
Mr. Kaneko Hiroshi *(Note 11)*	1/1
Dr. Loke Yu *(Note 12)*	1/1

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;

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

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

REMUNERATION COMMITTEE

The Remuneration Committee was established to determine the compensation structure and rewards for the CEO and other executive directors and monitors the policies being applied in remunerating other senior executives. The Remuneration Committee comprises two independent non-executive directors, namely Mr. To Yan Ming, Edmond (Chairman of the Committee) (Note 10), Mr. Kaneko Hiroshi (Note 11) 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 *(Note 7)*	0/0
Mr. Ng Lok Kei *(Note 8)*	0/0
Mr. Chan Hon Yuen *(Note 9)*	0/0
Mr. To Yan Ming, Edmond *(Note 10)*	1/1
Mr. Kaneko Hiroshi *(Note 11)*	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;

(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.

CORPORATE GOVERNANCE REPORT

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 three independent non-executive directors, namely Mr. To Yan Ming, Edmond (Chairman of the Committee) (Note 10), Mr. Kaneko Hiroshi (Note 11), Dr. Loke Yu (Note 12) and one executive director, namely Mr. Wong Man Pan. Four meetings were held during the year.

Members	**Number of Nomination Committee meeting attended/held**
Executive directors	
Mr. Wong Man Pan	4/4
Mr. Tsang King Sun *(Note 2)*	4/4
Independent non-executive directors	
Mr. Liang Jin An *(Note 7)*	2/2
Mr. Ng Lok Kei *(Note 8)*	2/2
Mr. Chan Hon Yuen *(Note 9)*	0/2
Mr. To Yan Ming, Edmond *(Note 10)*	4/4
Mr. Kaneko Hiroshi *(Note 11)*	1/1
Dr. Loke Yu *(Note 12)*	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;

(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;

(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; and

(e) make recommendation of measurable objective for achieving diversity of the Board.

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 32 to 33 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 Elite Partners 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 2013, the services provided by the Company's independent external auditors to the Group were as follows:

	2013 ***HK$'000***	2012 *HK$'000*
Audit services	**650**	588
Other assurance services	**—**	675
Non-assurance services	**225**	—

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. 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;

CORPORATE GOVERNANCE REPORT

(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 2013.

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 14 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 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 124.

The directors do not recommend the payment of a dividend in respect of the year (2012: 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 100 and note 34(b) to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2013, the Company had no distributable reserves. However, the Company's share premium account, in the amount of HK$1,663,632,000 (2012: HK$1,423,801,000) 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 34(b) to the financial statements.

DONATIONS

During the year, the Group did not make any charitable donation (2012: HK$303,000).

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.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 33 to the financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group at 31 December 2013 are set out in notes 28 to the financial statements.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 125. 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. Li Zhixiong *(appointed on 18 November 2013)*
Mr. Tsang King Sun *(resigned on 22 November 2013)*
Mr. Fu Zhenjun
Ms. Tsui Kwok Yin, Czarina *(retired on 28 June 2013)*
Mr. Kuang Yuanwei *(appointed on 1 February 2013)*

Non-Executive directors

Mr. Yiu Kwok Ming, Tommy
Mr. Xie Jianming *(appointed on 20 May 2013)*
Mr. Zhu Qi *(appointed on 20 May 2013)*

Independent non-executive directors

Mr. Liang Jin An *(retired on 28 June 2013)*
Mr. Ng Lok Kei *(retired on 28 June 2013)*
Mr. Chan Hon Yuen *(resigned on 28 June 2013)*
Mr. To Yan Ming, Edmond
Mr. Kaneko Hiroshi
Dr. Loke Yu *(appointed on 9 August 2013)*
Mr. Lin Xuebin *(appointed on 9 August 2013)*

In accordance with Clause 99 of the Company's bye-laws, Mr. Yiu Kwok Ming, Tommy, Mr. Fu Zhenjun, and Mr. To Yun Ming, Edmond will retire by rotation at the forthcoming annual general meeting and pursuant to Clause 102(A) of the Company's bye-laws, Mr. Li Zhixiong, Mr. Kuang Yuanwei, Mr. Xie Jianming, Mr. Zhu Qi, Dr. Loke Yu and Mr. Lin Xuebin 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 39 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 10 to 11.

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2013, 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. Li Zhixiong	491,761,666	116,670,000	—	—	608,431,666
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 35 to the financial statements.

DIRECTORS' REPORT

Save as disclosed above and note 35 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 as required to be kept by the Company pursuant to Section 336 of the SFO. As at 31 December 2013, the following shareholders 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 2013
Wu Guanwen	Beneficial owner	116,670,000	4.22%
	Held by spouse *(Note 1)*	491,761,666	17.78%
Tse Ling Ling	Beneficial owner	190,000,000	6.87%
China International Capital Corporation Hong Kong Securities Limited	Beneficial owner	217,235,000	7.85%
China International Capital Corporation Limited	Interest of a controlled corporation *(Note 2)*	217,235,000	7.85%

Interest in underlying shares

Name		Number of underlying shares interested	Percentage of issued share capital at 31 December 2013
Noble Wonderland Limited	Beneficial owner *(Note 3)*	533,333,333 *(Note 4)*	19.28%

Notes:

1. Ms. Wu Guanwen is the spouse of Mr. Li Zhixiong, whose interest was disclosed in previous section.

2. China International Capital Corporation Hong Kong Securities Limited is a wholly-owned subsidiary of China International Capital Corporation Limited. Accordingly, China International Capital Corporation Limited is deemed to be interested in all shares held by China International Capital Corporation Hong Kong Securities Limited.

3. Noble Wonderland Limited is legally and beneficially owned as to 60% by Mr. Chen Yaxing and 40% by Mr. Cai Zhisen. As at 31 December 2013, it held HK$480,000,000 convertible bonds of the Company.

4. 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$0.9 per share.

CONNECTED TRANSACTIONS

The following transaction between a connected party (as defined in the Listing Rules) of the Company and the Group have been entered into for which relevant circular and/or announcements, if necessary, had been made by the Company in accordance with Chapter 14A of the Listing Rules.

On 24 April 2013, Zhongshan City Prado Style Household Company Limited ("Zhongshan Prado") (a wholly foreign-owned enterprise established in the PRC and a wholly owned subsidiary of the Company) and New Oasis Wood Co. Limited ("New Oasis") entered into a Cooperation Agreement regarding the supply of household products, pursuant to which both parties wish to utilize their respective advantages in the household business so as to achieve mutual benefits to both parties, at an annual cap of RMB150,000,000 and RMB180,000,000 for each of two financial years ending 31 December 2013 and 31 December 2014 respectively. New Oasis agrees to procure products from Zhongshan Prado with the value of not less than RMB100,000,000 per year. Both parties agrees that New Oasis will act as the sales representative of Zhongshan Prado in which the fee will not be more than or equal to 0.1% of the transaction value and the total amount will not more than or equal to HK$1,000,000 per year, with due settlement by the end of each year. As one of the director of the Company was the director and shareholder of New Oasis shortly before entering into Cooperation Agreement, and therefore New Oasis is a connected person of the Company under Listing Rules and the Cooperation Agreement constituted continuing connected transactions. Details of the transactions are set out in the circular of the Company dated 9 August 2013. During the year, the commission expenses incurred by the Group was HKD154,916.

The aforesaid continuing connected transactions have been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into:

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

(b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' REPORT

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group above in accordance with paragraph 14A.38 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	22%
— five largest suppliers combined	55%

Sales

— the largest customer	30%
— five largest customers combined	74%

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.

CODE ON CORPORATE GOVERNANCE PRACTICES

Please refer to the Corporate Governance Report on pages 12 to 24 of this report.

DIRECTORS' 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 40 to the financial statements.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely Dr. Loke Yu (Chairman of the Committee), Mr. To Yan Ming, Edmond and Mr. Kaneko Hiroshi. 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 2013.

AUDITORS

The financial statements for the year ended 31 December 2013 were audited by Elite Partners CPA Limited.

A resolution for the appointment of Elite Partners CPA Limited as the auditors of the Company for the year ending 31 December 2014 will be proposed at the upcoming annual general meeting of the Company.

On behalf of the Board

Wong Man Pan
Chairman

Hong Kong, 27 March 2014

INDEPENDENT AUDITORS' REPORT

開元信德會計師事務所有限公司
ELITE PARTNERS CPA LIMITED
Certified Public Accountants

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

We have audited the consolidated financial statements of China Household Holdings Limited (formerly known as "Bao Yuan Holdings Limited") (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 125, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other 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 2013, and of the Group's profit 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.

Elite Partners CPA Limited
Certified Public Accountants

Chan Wai Nam, William
Practising Certificate number P05957

Hong Kong
27 March 2014

Suites 2B-4A, 20th Floor,
Tower 5, China Hong Kong City,
33 Canton Road, Tsimshatsui,
Kowloon, Hong Kong

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Revenue	5	**939,789**	17,286
Cost of sales		**(606,703)**	(7,377)
Gross profit		**333,086**	9,909
Other income	5	**53,272**	4,688
Selling and distribution expenses		**(8,285)**	(607)
Administrative expenses		**(96,672)**	(56,699)
Other (losses)/gains	5	**(12,315)**	69,370
Finance costs	7	**(43,248)**	(45,902)
Profit/(loss) before tax	6	**225,838**	(19,241)
Income tax expense	9	**(71,677)**	(749)
PROFIT/(LOSS) FOR THE YEAR		**154,161**	(19,990)
Attributable to:			
Owners of the Company		**159,296**	(16,438)
Non-controlling interests		**(5,135)**	(3,552)
		154,161	(19,990)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		**HK$0.064**	(HK$0.014)
Diluted		**HK$0.060**	(HK$0.014)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013 ***HK$'000***	2012 *HK$'000*
PROFIT/(LOSS) FOR THE YEAR	**154,161**	(19,990)
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**3,517**	266
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**3,517**	266
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR	**157,678**	(19,724)
Total comprehensive income/(expense) for the year attributable to:		
Owners of the Company	**162,806**	(16,211)
Non-controlling interests	**(5,128)**	(3,513)
	157,678	(19,724)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**33,055**	3,450
Lease premiums for land	13	**113,808**	—
Exploration and evaluation assets	15	**1,539,000**	1,539,000
Intangible assets	16	**44,929**	42,227
Loan receivables	22	**123**	1,450
Other financial assets	17	**185,184**	—
Available-for-sale investments	18	**—**	590
Convertible note receivable	26	**—**	2,672
Deferred tax assets	19	**40,207**	40,207
Goodwill	20	**588,279**	290,778
Total non-current assets		**2,544,585**	1,920,374
CURRENT ASSETS			
Inventories	21	**47,874**	1,457
Lease premiums for land	13	**3,959**	—
Loan receivables	22	**2,060**	23,350
Trade and bills receivables	23	**166,489**	1,710
Prepayments, deposits and other receivables	24	**265,089**	7,975
Equity investments at fair value through profit or loss	25	**68,214**	27,775
Convertible note receivable	26	**2,951**	—
Conversion option embedded in convertible note receivable	26	**1**	1
Pledged deposits	27	**1,046**	6,235
Cash and cash equivalents	27	**38,286**	11,287
Total current assets		**595,969**	79,790
CURRENT LIABILITIES			
Bank overdraft, secured	28	**2,324**	466
Bank loans, secured	28	**45,686**	—
Trade payables	29	**39,511**	1,980
Other payables and accruals	30	**41,380**	3,429
Tax payables		**10,256**	2,896
Deferred tax liabilities	19	**2,969**	152
Total current liabilities		**142,126**	8,923
NET CURRENT ASSETS		**453,843**	70,867
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,998,428**	1,991,241

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT LIABILITIES			
Strict bonds	28	**223,000**	—
Convertible bonds	31	**336,494**	2,591
Promissory notes	32	**251,666**	321,914
Total non-current liabilities		**811,160**	324,505
NET ASSETS		**2,187,268**	1,666,736
EQUITY			
Equity attributable to owners of the Company			
Issued capital	33	**2,766**	2,187
Equity component of convertible bonds	31	**169,948**	47,503
Reserves	34(a)	**2,003,464**	1,600,828
		2,176,178	1,650,518
Shares to be issued	31	**21,418**	21,418
Non-controlling interests		**(10,328)**	(5,200)
TOTAL EQUITY		**2,187,268**	1,666,736

Wong Man Pan
Chairman

Li Zhixiong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Attributable to owners of the Company											
	Share capital $'000	Share premium# $'000	Contributed surplus# $'000	Employee share option reserves# $'000	Capital reserves# $'000	Equity component of convertible bonds $'000	Exchange reserves# $'000	Acc-umulated losses# $'000	Total $'000	Shares to be issued $'000	Non-controlling interests $'000	Total equity $'000
At 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/(expense) 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	81	15,426	–	–	–	–	–	–	15,507	–	–	15,507
Issue of shares through open offer	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 31)*	–	–	–	–	–	–	–	–	–	21,418	–	21,418
At 31 December 2012 and 1 January 2013	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
Profit for the year	–	–	–	–	–	–	–	159,296	159,296	–	(5,135)	154,161
Other comprehensive income:	–	–	–	–	–	–	3,510	–	3,510	–	7	3,517
Total comprehensive income for the year	–	–	–	–	–	–	3,510	159,296	162,806	–	(5,128)	157,678
Issue of convertible bonds	–	–	–	–	–	252,407	–	–	252,407	–	–	252,407
Issue of shares upon conversion of convertible bonds	579	239,830	–	–	–	(129,962)	–	–	110,447	–	–	110,447
At 31 December 2013	2,766	1,663,631	388,084	3,587	(21)	169,948	4,853	(56,670)	2,176,178	21,418	(10,328)	2,187,268

These reserve accounts comprise the consolidated reserves of approximately HK$2,003,464,000 (2012: HK$1,600,828,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	**225,838**	(19,241)
Adjustments for:		
Depreciation of property, plant and equipment	**3,637**	513
Amortisation of intangible assets	**12,144**	3,602
Amortisation of lease premiums for land	**990**	—
Bank interest income	**(174)**	(143)
Gain on early redemption of convertible bonds	**—**	(60,324)
Net fair value losses on early redemption of promissory notes	**20,422**	—
Interest expenses	**1,243**	88
Interest on convertible bonds	**2,854**	33,894
Interest on promissory notes	**36,450**	11,920
Interest on strict bonds	**2,701**	—
Net fair value (gain)/loss on equity investments at fair value through profit or loss	**(41,498)**	13,748
Loss on disposal of available-for-sale investment	**404**	—
Write off of items of property, plant and equipment	**—**	744
Loss/(profit) on trading of equity investments at fair value through profit or loss, net	**464**	(1,639)
Fair value change of conversion option embedded in convertible note receivable	**—**	458
Imputed interest income on convertible note receivable	**(279)**	(71)
Impairment loss on goodwill	**33,256**	—
Impairment loss on trade and bills receivables	**10,796**	129
Impairment loss on other receivables	**905**	764
Compensation income from deed of variation	**(46,095)**	—
Share-based payment	**—**	334
	264,058	(15,224)
Increase in inventories	**(28,077)**	(1,011)
Increase in trade and bills receivables	**(165,808)**	(464)
(Increase)/decrease in other receivables, prepayments and deposits	**(255,209)**	4,179
Decrease/(increase) in loan receivables	**14,509**	(3,826)
Increase in trade payables	**26,821**	540
Increase/(decrease) in other payables and accruals	**14,374**	(24,335)
Cash used in operations	**(129,332)**	(40,141)
Profits tax (paid)/refund	**(64,836)**	190
Interest paid	**(5,732)**	(88)
Net cash flows used in operating activities	**(199,900)**	(40,039)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**174**	143
Decrease/(increase) in pledged time deposits with original maturity more than three months	**5,189**	(232)
Purchases of items of property, plant and equipment	**(6,939)**	(1,713)
Payment of acquisition of equity investment at fair value through profit or loss	**(2,816)**	(26,751)
Proceeds from disposal of items of available for sales investment	**186**	—
Proceeds from disposal of equity investment at fair value through profit or loss	**3,411**	15,905
Acquisition of subsidiaries	**89**	(39,704)
Purchase of convertible note receivable	**—**	(3,060)
Net cash flows used in investing activities	**(706)**	(55,412)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contribution by non-controlling interests	**—**	551
Proceeds from issues of strict bonds	**223,000**	—
Proceeds from open offer	**—**	196,832
Proceeds from new bank and other loans	**45,686**	—
Proceeds from issues of shares	**—**	15,507
Redemption of promissory note	**(43,049)**	—
Redemption of convertible bonds	**—**	(131,677)
Interest paid on convertible bonds	**—**	(10,659)
Net cash flow from financing activities	**225,637**	70,554
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**25,031**	(24,897)
Cash and cash equivalents at beginning of year	**10,821**	35,712
Effect of foreign exchange rate change, net	**110**	6
CASH AND CASH EQUIVALENTS AT END OF YEAR	**35,962**	10,821
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**38,286**	11,287
Bank overdrafts, secured	**(2,324)**	(466)
Cash and cash equivalents at stated in the consolidated statement of cash flows	**35,962**	10,821

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**75**	124
Investments in subsidiaries	14	**2,399,680**	1,724,034
Total non-current assets		**2,399,755**	1,724,158
CURRENT ASSETS			
Prepayments, deposits and other receivables	24	**29,942**	425
Cash and cash equivalents	27	**12,328**	37
Amounts due from subsidiaries	14	**199,034**	84,904
Total current assets		**241,304**	85,366
CURRENT LIABILITIES			
Other payables and accruals	30	**8,165**	806
Total current liabilities		**8,165**	806
NET CURRENT ASSETS		**233,139**	84,560
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,632,894**	1,808,718
NON-CURRENT LIABILITIES			
Strict bonds	28	**223,000**	—
Convertible bonds	31	**336,494**	2,591
Promissory notes	32	**98,653**	148,968
Total non-current liabilities		**658,147**	151,559
NET ASSETS		**1,974,747**	1,657,159
EQUITY			
Issued capital	33	**2,766**	2,187
Equity component of convertible bonds	31	**169,948**	47,503
Reserves	34(b)	**1,780,615**	1,586,051
		1,953,329	1,635,741
Shares to be issued	31	**21,418**	21,418
TOTAL EQUITY		**1,974,747**	1,657,159

Wong Man Pan
Chairman

Li Zhixiong
Director

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

1. CORPORATE INFORMATION

China Household Holdings Limited (formerly known as "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 is located at Suite No. 1001B, 10/F., Tower 1, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong. The shares of the Company are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to a special resolution passed at Special General Meeting of the Company held on 1 February 2013 and approved by the Registrar 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 (the "Group") were principally engaged in trading of wooden products and provision of interior design services, the sales of fabrics and garments and other related accessories, 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 trading of wooden products and provision of interior design services is a new business segment of the Group through an acquisition of subsidiaries during the year of 2013.

These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group. As disclosed in note 2.2 of the financial statements, it provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

2.1 BASIS OF PREPARATION *(CONTINUED)*

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs under the historical cost convention, as modified by the equity investments at fair value through profit or loss; conversion option embedded in convertible note receivable and other financial assets, which are carried at fair value.

The preparation of consolidated financial statements in accordance with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3 to the consolidated financial statements.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

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

The initial application of these financial reporting standards does not necessitate material changes in the company's accounting policies except the following:

(i) Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

(ii) Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements

(iii) HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for fair value measurements, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and nonfinancial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[4]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) — Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 July 2014, with early application is permitted.

3 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

The Group is in the process of assessing the impact of these new and revised standards, amendments to standards and interpretations to existing standards and does not expect there will be a material impact on the consolidated financial statements of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation *(continued)*

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations *(continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquire is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Acquisition of assets

For the acquisition of assets effected through a non-operating corporate structure that does not constitute a business, it is considered that the transactions do not meet the definition of a business combination. Accordingly the transaction is accounted for as the acquisition of an asset. In such cases, the Group shall identify and recognise the individual identification assets acquired and liabilities assumed. The cost of group of assets shall be allocated to the individual identification assets and liabilities on the basis of their relative fair value at the date of purchase. Such a transaction or event does not give rise to goodwill.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is 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 profit or loss in the period in which it arises.

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period related.

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Related parties *(continued)*

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

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

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

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

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

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

(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 carried in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses.

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "lease premiums for land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method, over their estimated useful lives as follows:

— buildings situated on leasehold land are depreciated over the unexpired term of lease and their estimated useful lives, being no more than 20 years.

—	leasehold improvement	over the lease term
—	furniture and fixture	20%
—	motor vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation *(continued)*

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation assets are transferred to either mining rights or property, plant and equipment and are amortised or depreciated based on the accounting policy as stated in either "mining rights" or "property, plant and equipment", respectively. Amortisation or depreciation is not charged on costs in respect of areas of interest in the development phase until production. Amortisation or depreciation will be charged over the mine's estimated useful 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 are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible assets (other than goodwill)

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

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

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

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

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

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss 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 profit or loss 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 profit or loss 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

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

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

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

Derecognition of financial assets

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

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 profit or loss, is removed from other comprehensive income and recognised in profit or loss.

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 profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. 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, strict bond, convertible bonds and promissory notes.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Subsequent measurement

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities *(continued)*

Loans and borrowings

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

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

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the consolidated 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 profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted-average method and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Provisions

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

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

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.

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 35 to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Share-based payment *(continued)*

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment, 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 profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's 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 profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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

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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 profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on 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 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 profit or loss.

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.

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 profit or loss, 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES *(CONTINUED)*

Estimation uncertainty *(continued)*

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 exploration and evaluation assets

The Group assesses whether there are any indicators of impairment of exploration and evaluation assets at the end of each reporting period. 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 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 recoverable amount of the exploration and evaluation assets have been determined based on value in use calculation. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the exploration and evaluation assets and a suitable discount rate in order to calculate the present value. The management refers to the valuation performed by the independent qualified valuers. In performing the valuation, the valuers have based on method of valuation which involves certain estimates and assumptions. This estimate and assumption made by management on the future operation of the business, pre-tax discount rate, and other assumptions underlying the value in use calculations.

Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Valuation of intangible assets and useful lives

The Group has made estimations and assumptions in relation to the potential future cash flows of identifiable intangible assets acquired as part of business combinations. This assessment involves estimations and assumptions relating to potential future revenues, appropriate discount rates and the useful lives of such assets. These estimations and assumptions impact the profit or loss over the useful life of the intangible asset.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING ESTIMATES *(CONTINUED)*

Estimation uncertainty *(continued)*

Valuation of other financial assets

As part of the identifiable asset acquired in business combinations as set out in notes 36 of the financial statements, profit guarantee is valued at fair value at the acquisition date with the best estimates of the future outcome of the future events Where the profit guarantee meets the definition of a financial asset, it is subsequently re-measured to fair value at the end of each reporting period. The determination of the fair value is based on the expected adjustment on consideration paid. The key assumptions take into consideration the probability of meeting each profit target.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has six (2012: five) reportable operating segments as follows:

(a) the sales of household furnitures segment is trading of household furnitures and wooden products;

(b) the sales of fabrics, garments and accessories segment is trading of the fabrics, 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 information and technologies services segment is the provision of information and technologies services and sales of related products; and

(f) other comprises of the money lending segment and the fashion segment. The money lending segment is the provision of loan financing and the fashion segment is the provision of design and related services and sales of designers products.

The sale of household furnitures segment is a new business segment through an acquisition of subsidiaries by the Group during the year.

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, strict bonds, 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

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4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

	Year ended 31 December 2013						
	Sales of household furnitures *HK$'000*	Sales of fabrics and garment trading *HK$'000*	Mining *HK$'000*	Securities *HK$'000*	Information and technology services *HK$'000*	Other *HK$'000*	Total *HK$'000*
Segment revenue							
Sales to external customers	922,361	4,309	—	(464)	9,979	3,604	939,789
Segment results	210,916	(9,369)	(3,149)	42,271	4,862	(5,749)	239,782
Reconciliation:							
Interest income and unallocated gains							51,383
Corporate and other unallocated expenses							(22,079)
Finance costs							(43,248)
Profit before tax							225,838
Segment assets	451,399	8,786	1,542,536	67,147	13,479	6,389	2,089,736
Reconciliation:							
Unallocated assets							1,050,818
Total assets							3,140,554
Segment liabilities	95,478	7,664	55	—	2,123	5,732	111,052
Reconciliation:							
Unallocated liabilities							842,234
Total liabilities							953,286
Other segment information							
Capital expenditure*	19,674	1,742	15	—	—	776	22,207
Reconciliation:							
Unallocated capital expenditure							144,542
							165,749
Depreciation and amortisation	1,444	262	9	—	8,401	1,561	11,677
Reconciliation:							
Unallocated depreciation and amortisation							5,094
							16,771
Impairment loss on trade and bills receivables	10,641	—	—	—	155	—	10,796

* 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

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4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

	Year ended 31 December 2012					
	Sales of fabrics and garment trading *HK$'000*	Mining *HK$'000*	Securities *HK$'000*	Information and technologies services *HK$'000*	Other *HK$'000*	Total *HK$'000*
Segment revenue						
Sales to external customers	6,399	—	1,719	1,417	7,751	17,286
Segment results	(3,643)	(3,081)	(13,215)	(3,576)	(4,114)	(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	5,634	1,539,345	24,675	43,661	32,886	1,646,201
Reconciliation:						
Unallocated assets						353,963
Total assets						2,000,164
Segment liabilities	1,799	316	25	1,427	749	4,316
Reconciliation:						
Unallocated liabilities						329,112
Total liabilities						333,428
Other segment information						
Capital expenditure*	—	22	—	41,975	1,588	43,585
Reconciliation:						
Unallocated capital expenditure						103
						43,688
Depreciation and amortisation	—	5	—	2,812	1,154	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 2013

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Geographical information

	For the year ended 31 December 2013					
	Hong Kong *HK$'000*	United States *HK$'000*	The PRC *HK$'000*	Italy *HK$'000*	Other *HK$'000*	Total *HK$'000*
Revenue						
Sales to external customers	5,123	—	930,357	4,309	—	939,789
Segment assets	472,107	120	2,668,087	—	240	3,140,554
Capital expenditure*	3,979	—	162,770	—	—	166,479

	For the year ended 31 December 2012					
	Hong Kong *HK$'000*	United States *HK$'000*	The PRC *HK$'000*	Italy *HK$'000*	Other *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

Revenue from major customers was derived from the sales of household furnitures segment and sales of fabrics and garment trading segment in 2013 and 2012 respectively, detailed information was summarised as follows:

Customers	**2013** *HK$'000*	2012 *HK$'000*
A	274,181	—
B	154,917	—
C	104,976	—
D	—	2,842
E	—	2,595
Total	534,074	5,437

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

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5. REVENUE, OTHER INCOME AND OTHER (LOSSES)/GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of i) sales of household furnitures; ii) sales of fabrics, garments and other related accessories, after allowances for returns and trade discounts; iii) profit/(loss) from trading of securities; iv) dividend income, v) interest income from loan financing, vi) 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 other (losses)/gains of the Group is as follows:

	2013 HK$'000	2012 HK$'000
Revenue		
Sales of goods	**928,121**	9,409
Provision of services	**9,983**	849
Interest income from loan receivables	**1,937**	5,309
(Loss)/profit on trading of equity investments at fair value through profit or loss, net	**(464)**	1,639
Dividend income from listed equity investments	**212**	80
	939,789	17,286
Other income		
Bank interest income	**174**	143
Imputed interest income on convertible note receivable	**279**	71
Commission income	**990**	719
Compensation income from deed of variation	**46,095**	—
Others	**5,734**	3,755
	53,272	4,688
Other (losses)/gains		
Gain on early redemption of convertible bonds	**—**	60,324
Impairment loss on goodwill	**(33,256)**	—
Net fair value gain/(loss) on equity investment at fair value through profit or loss	**41,498**	(13,748)
Net fair value losses on early redemption promissory notes	**(20,422)**	—
Loss on disposal of available-for-sales investment	**(404)**	—
Exchange gains	**269**	—
Waiver of other payables	**—**	22,794
	(12,315)	69,370

6. PROFIT/(LOSS) BEFORE TAX

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

	2013 **HK$'000**	2012 HK$'000
Cost of inventories sold	**605,906**	7,209
Cost of services provided	**797**	168
Depreciation of property, plant and equipment	**3,637**	513
Directors' remuneration	**3,875**	3,171
Auditors' remuneration	**650**	588
Amortisation of intangible assets	**12,144**	3,602
Amortisation of lease premiums for land	**990**	—
Minimum lease payments under operating leases — land and buildings	**6,677**	3,689
Staff costs (excluding directors' remuneration)		
Salaries and allowances	**17,075**	11,904
Retirement benefit costs	**696**	538
Equity-settled share option expenses	**—**	167
Write off of items of property, plant and equipment	**—**	744
Impairment loss on trade and bills receivables	**10,796**	129
Impairment loss on other receivables	**905**	764

7. FINANCE COSTS

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

	2013 **HK$'000**	2012 HK$'000
Interest on bank loans and overdraft repayable within five years	**1,181**	35
Interest on finance lease	**59**	—
Interest on other loans	**3**	53
Interest on strict bonds	**2,701**	—
Interest on convertible bonds	**2,854**	33,894
Interest on promissory notes	**36,450**	11,920
	43,248	45,902

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:

	2013 **HK$'000**	2012 HK$'000
Fees	**714**	379
Other emoluments:		
Salaries, Allowances and benefits in kind	**3,033**	2,535
Equity-settled share options expenses	**—**	167
Retirement benefit costs	**128**	90
	3,161	2,792
	3,875	3,171

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

8. DIRECTORS' REMUNERATION *(CONTINUED)*

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 2013

Name of directors	*Notes*	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						
Wong Man Pan		—	670	15	—	685
Tsang King Sun	*a*	—	543	13	—	556
Fu Zhenjun	*b*	—	208	18	—	226
Tsui Kwok Yin, Czarina	*c*	—	207	9	—	216
Kuang Yuanwei		—	405	28	—	433
Li Zhixiong	*d*	—	72	—	—	72
Total		—	2,105	83	—	2,188
Non-executive directors						
Yiu Kwok Ming, Tommy	*e*	—	928	45	—	973
Xie Jianming	*f*	93	—	—	—	93
Zhu Qi	*g*	93	—	—	—	93
		186	928	45	—	1,159
Total		186	3,033	128	—	3,347
Independent non-executive directors						
Liang Jin An	*h*	50	—	—	—	50
Ng Lok Kei	*i*	60	—	—	—	60
Chan Hon Yuen	*j*	60	—	—	—	60
To Yan Ming, Edmond	*k*	120	—	—	—	120
Kaneko Hiroshi	*l*	120	—	—	—	120
Loke Yu	*m*	59	—	—	—	59
Lin Xuebin	*n*	59	—	—	—	59
		528	—	—	—	528
Total		714	3,033	128	—	3,875

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8. DIRECTORS' REMUNERATION *(CONTINUED)*

For the year ended 31 December 2012

Name of directors	*Notes*	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	*o*	—	207	9	—	216
Wong Man Pan		—	482	14	—	496
Tsang King Sun	*a*	—	530	14	—	544
Fu Zhenjun	*b*	—	101	5	—	106
Tsui Kwok Yin, Czarina	*c*	—	117	4	—	121
Total		—	1,437	46	—	1,483
Non-executive director						
Yiu Kwok Ming, Tommy	*e*	—	1,098	44	167	1,309
Total		—	2,535	90	167	2,792
Independent non-executive directors						
Liang Jin An	*h*	48	—	—	—	48
Ng Lok Kei	*i*	120	—	—	—	120
Chan Hon Yuen	*j*	120	—	—	—	120
To Yan Ming, Edmond	*k*	72	—	—	—	72
Kaneko Hiroshi	*l*	19	—	—	—	19
		379	—	—	—	379
Total		379	2,535	90	167	3,171

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 35 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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8. DIRECTORS' REMUNERATION *(CONTINUED)*

Notes:

(a) Mr. Tsang King Sun resigned as executive director of the Company with effect from 22 November 2013.

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

(c) Ms. Tsui Kwok Yin, Czarina was appointed as executive director of the Company with effect from 21 September 2012 and retired as executive director with effect from 28 June 2013.

(d) Mr. Li Zhixiong was appointed as executive director of the Company with effect from 18 November 2013.

(e) 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.

(f) Mr. Xie Jianming was appointed as non-executive director of the Company with effect from 20 May 2013.

(g) Mr. Zhu Qi was appointed as non-executive director of the Company with effect from 20 May 2013.

(h) Mr. Liang Jin An retired as independent non-executive director of the Company with effect from 28 June 2013.

(i) Mr. Ng Lok Kei retired as independent non-executive director of the Company with effect from 28 June 2013.

(j) Mr. Chan Hon Yuen resigned as independent non-executive director of the Company with effect from 28 June 2013.

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

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

(m) Dr. Loke Yu was appointed as independent non-executive director of the Company with effect from 9 August 2013.

(n) Mr. Lin Xuebin was appointed as independent non-executive director of the Company with effect from 9 August 2013.

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

During the year, there were no other emoluments payables to the independent non-executive directors (2012: 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 (2012: Nil). There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2012: Nil).

8. DIRECTORS' REMUNERATION *(CONTINUED)*

Five highest paid employees

The five individuals whose remuneration were the highest in the Group included one (2012: one) executive director and one (2012: Nil) non-executive director. Details of the remuneration of the remaining three (2012: three) highest paid employees during the year are as follows:

	2013 **HK$'000**	2012 *HK$'000*
Salaries, allowances	**2,583**	2,719
Retirement benefits costs	**77**	75
Equity-settled share option expenses	**—**	167
	2,660	2,961

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

	2013 ***Number***	2012 *Number*
Nil — HK$1,000,000	**2**	3
HK$1,000,001 — HK$1,500,000	**1**	—
	3	3

9. INCOME TAX EXPENSE

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

	Note	**2013** ***HK$'000***	2012 *HK$'000*
Current tax			
— Hong Kong	*(a)*	**1,682**	749
— PRC	*(b)*	**69,701**	—
Under provision in respect of prior years	*(c)*	**1,188**	—
		72,571	749
Deferred tax		**(894)**	—
		71,677	749

(a) Hong Kong profit tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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9. INCOME TAX EXPENSE *(CONTINUED)*

(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% from 1 January 2008 onwards.

(c) An under-provision for corporate income tax in Hong Kong and the PRC were approximately HK$718,000 and HK$470,000 respectively.

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate for the counties 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:

	2013 *HK$'000*	2012 *HK$'000*
Profit/(loss) before tax	**225,838**	(19,241)
Tax charge/(credit) at the statutory tax rate of 16.5%	**37,263**	(3,175)
Tax effect of expenses not deductible	**18,012**	11,900
Tax effect of income not taxable	**(14,824)**	(14,317)
Difference tax rates under different jurisdiction	**20,900**	(311)
Tax effect of temporary difference on depreciable assets not recognised	**386**	219
Tax losses utilised from previous years	**(1,308)**	—
Tax losses not recognised	**10,060**	6,433
Underprovision in the previous year	**1,188**	—
Tax expense at effective tax rate	**71,677**	749

As at 31 December 2013, the Group has had losses of approximately HK$50,000,000 (2012: HK$277,000,000) 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 losses can be utilised. Except fo tax losses for approximately HK$2,000,000 (2012: HK$12,000,000) 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$48,000,000 (2012: HK$265,000,000) 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 2013 includes a loss of HK$45,266,000 (2012: a profit of HK$5,680,000) which has been dealt with in the financial statements of the Company (note 34(b)).

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

The calculations of basic and diluted earnings/(loss) per share are based on

	2013	2012
	HK$'000	*HK$'000*
Profit/(loss)		
Profit/(loss) attributable to ordinary equity holders of the Company	**159,296**	(16,438)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds (net of income tax)	**3,021**	—
Profit/(loss) for the purpose of diluted earnings/(loss) per share	**162,317**	(16,438)

	Number of shares	
	2013	2012
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**2,467,015**	1,207,262
Effect of dilutive potential ordinary shares:		
Convertible bonds	**216,674**	—
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**2,683,689**	1,207,262

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

No adjustment has been made to the diluted earning per share for share options due to the exercise price of the share options was higher than the average market price for shares in 2013.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2012 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.

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12. PROPERTY, PLANT AND EQUIPMENT

Group:

	Building HK$'000	Leasehold improvement HK$'000	Furniture, fixture and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:						
At 1 January 2012	—	916	2,196	360	900	4,372
Additions	—	933	780	—	—	1,713
Transfer	—	900	—	—	(900)	—
Additions through acquisition of subsidiaries	—	—	99	—	—	99
Written Off	—	(900)	(815)	—	—	(1,715)
At 31 December 2012 and 1 January 2013	—	1,849	2,260	360	—	4,469
Additions	—	3,213	1,729	1,997	—	6,939
Additions through acquisition of subsidiaries	24,324	107	1,475	300	—	26,206
Exchange realignment	—	18	70	22	—	110
At 31 December 2013	24,324	5,187	5,534	2,679	—	37,724
Accumulated Depreciation:						
At 1 January 2012	—	188	929	360	—	1,477
Charged for the year	—	146	367	—	—	513
Written back on disposal	—	(265)	(706)	—	—	(971)
At 31 December 2012 and 1 January 2013	—	69	590	360	—	1,019
Charged for the year	203	2,002	1,114	318	—	3,637
Exchange realignment	—	3	8	2	—	13
At 31 December 2013	203	2,074	1,712	680	—	4,669
Net carrying amount:						
At 31 December 2013	24,121	3,113	3,822	1,999	—	33,055
At 31 December 2012	—	1,780	1,670	—	—	3,450

NOTES TO THE FINANCIAL STATEMENTS

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

Company:

	Leasehold improvements *HK$'000*	**Furniture, fixtures and office equipment** *HK$'000*	**Total** *HK$'000*
Cost:			
At 1 January 2012	266	245	511
Additions	—	2	2
At 31 December 2012, 1 January 2013 and 31 December 2013	266	247	513
Accumulated Depreciation:			
At 1 January 2012	42	74	116
Charged for the year	27	49	76
Written off	197	—	197
At 31 December 2012 and 1 January 2013	266	123	389
Charged for the year	—	49	49
At 31 December 2013	266	172	438
Net carrying amount:			
At 31 December 2013	—	75	75
At 31 December 2012	—	124	124

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13. LEASE PREMIUMS FOR LAND

	Group
	2013
	HK$'000
Carrying amount at 1 January	—
Acquisition of subsidiaries	**118,757**
Amortisation	**(990)**
Carrying amount at 31 December	**117,767**
Analysed for reporting purposes as:	
Current portion	**3,959**
Non-current portion	**113,808**
	117,767

The leasehold land is held under medium-term lease and is situated in the PRC.

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013	2012
	HK$'000	*HK$'000*
Unlisted share, at cost	**1,680,000**	1,680,000
Less: Impairment	**(160,829)**	(160,829)
	1,519,171	1,519,171
Amounts due from subsidiaries	**1,090,000**	306,923
Less: Impairment	**(10,457)**	(17,156)
	1,079,543	289,767
	2,598,714	1,808,938
Classified as current assets — amounts due from subsidiaries	**(199,034)**	(84,904)
Non-current assets	**2,399,680**	1,724,034

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.

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14. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Target Rich Investment Limited	British Virgin Islands ("BVI")/Hong Kong	US$1	100%	—	Investment holding
Greater China Mining Resources Limited	BVI/The People's Republic of China (the "PRC")	US$100	100%	—	Investment holding
Excel Growth Investments Limited	BVI/Hong Kong	US$1	100%	—	Investment holding
Victory Chain Investment Limited	BVI/Hong Kong	US$1	100%	—	Security investment
South Field (Pacific) Limited	Hong Kong	HK$1,000,101	—	56%	Sale of garments and accessories
Glamour International Limited	Samoa/Hong Kong	US$3	—	100%	Investment holding
Alpha Textile International Limited	Hong Kong	HK$10,000	—	65%	Sale of fabrics
Ching Hing (Holdings) Investment Limited	Hong Kong	HK$10,000	—	100%	Investment holding
Calvin Textiles Limited	Hong Kong	HK$10,000	—	100%	Merchandising services
Mark Joy International Limited	Hong Kong	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	Registered capital: RMB30,000,000	—	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

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14. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
深圳市泓訊電子科技有限公司 (Shenzhen City Hong Xun Electronic and Technology Company Limited)*#^	The PRC	Registered capital: 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
中山市普納度風尚家居有限公司 (Zhongshan City Prado Style Household Company Limited)*#^	The PRC	Registered capital: USD25,000,000	—	100%	Trading of wooden furnishing products

* Elite Partners 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.

The details of non-wholly owned subsidiaries of the Group that have material non-controlling interests as at 31 December 2013 and 2012 as below:

Name of indirect subsidiaries	Place of incorporation and principal activities	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(Loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	2013 HK'000	2012 HK'000	2013 HK'000	2012 HK'000
Greater China Mining Resources Limited	BVI/Mining	5%	5%	(164)	(115)	(1,134)	(1,299)
Target Rich Investment Limited	BVI/Garment	35%-42%	35%-42%	(3,704)	(1,386)	6,470	2,766
Blue Champion Limited	BVI/Fashion	37%	37%	(1,258)	(1,894)	5,048	3,790

The above information is based on Greater China Mining Resources Limited, Target Rich Investment Limited, Blue Champion Limited and their subsidiaries.

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15. EXPLORATION AND EVALUATION ASSETS

	Group	
	2013	2012
	HK$'000	*HK$'000*
At 31 December	**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.

The Group has not carried out any development nor production activity during the year. None of the exploration and evaluation costs were transferred to the property, plant and equipment as the directors of the Company are of the opinion that the exploration properties were not capable of commercial production at the end of the reporting period.

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

	2013	2012
	HK$'000	*HK$'000*
Operating activities	**(2,144)**	(2,704)
Investing activities	**(17)**	(22)
	(2,161)	(2,726)

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 2013. 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 2015. 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, Roma Appraisals Limited, to assess the fair value of the exploration and evaluation assets. No impairment loss on the exploration and evaluation assets was charged to profit or loss for the year ended 31 December 2012 and 31 December 2013.

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16. INTANGIBLE ASSETS

Group	**Customer Relationship** *Note a* *HK$'000*	**Other intangible assets** *Note b* *HK$'000*	**Computer software** *Note c* *HK$'000*	**Total** *HK$'000*
Cost:				
At 1 January 2012	—	—	4,000	4,000
Additions through acquisition of subsidiaries	—	41,876	—	41,876
At 31 December 2012 and 1 January 2013	—	41,876	4,000	45,876
Additions through acquisition of subsidiaries	14,846	—	—	14,846
At 31 December 2013	14,846	41,876	4,000	60,722
Accumulated amortisation:				
At 1 January 2012	—	—	200	200
Charged for the year	—	2,802	800	3,602
Exchange realignment	—	(153)	—	(153)
At 31 December 2012 and 1 January 2013	—	2,649	1,000	3,649
Charged for the year	2,969	8,375	800	12,144
At 31 December 2013	2,969	11,024	1,800	15,793
Net carrying amount:				
At 31 December 2013	11,877	30,852	2,200	44,929
At 31 December 2012	—	39,227	3,000	42,227

Note:

(a) Customer relationship represents the top three major wholesales customers in Chang Ye Group which were acquired through business combination on 3 January 2013. The useful life of customer relationship is 5 years.

(b) 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.

(c) 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.

17. OTHER FINANCIAL ASSETS

	2013 HK$'000	2012 HK$'000
Profit guarantee, at fair value	**185,184**	—

The fair value of other financial assets represents profit guarantee arising from acquisition of Red Hero International Limited ("Red Hero"), together with its subsidiaries, collectively the ("Red Hero Group") and Chang Ye Holdings Limited ("Chang Ye"), together with its subsidiaries, collectively the ("Chang Ye Group") respectively.

(a) On 3 January 2013, the Group acquired 100% equity interest of Chang Ye Group ("Chang Ye Acquisition"). The total consideration would be satisfied by way of the issue of a promissory note with principal value of HK$60,000,000, subject to an adjustment of the amount of profit guarantee for the relevant profit generated period.

Pursuant to the sales and purchase agreement, the profit guarantee for Chang Ye Group's total net profit after tax for the years ended/ending 31 December 2013, 2014 and 2015 shall not be less than HK$15,000,000 per year. In the event of guaranteed profit cannot be met, the shortfall amount will set off against the principal amount of promissory note with a cap of HK$15,000,000 each year (the "Shortfall").

The fair value of the profit guarantee of Chang Ye Group was nil at the acquisition date and at 31 December 2013.

(b) On 31 December 2013, the Group acquired 100% equity interest of Red Hero Group ("Red Hero Acquisition"). The total consideration would be satisfied by way of the issue of convertible bonds with an aggregate nominal value of HK$480,000,000 subject to an adjustment of the amount of profit guarantee for the relevant profit generated period.

Pursuant to the sales and purchase agreement, the profit guarantee for Red Hero Group's total net profit after tax for the years ending 31 December 2014, 2015 and 2016 shall not be less than HK$2,600,000 and HK$76,000,000 and HK$162,000,000 respectively. In the event of guaranteed profit cannot be met, the shortfall amount will set off against the principal amount of convertible bonds.

The fair value of profit guarantee of Red Hero Group was HK$185,184,000 on 31 December 2013.

The fair value of the aforementioned profit guarantee is based on valuation performed by Roma Appraisals Limited, an independent professional qualified valuer, by using a probabilistic model.

18. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2013 HK$'000	2012 HK$'000
Club membership, at cost	—	590

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19. DEFERRED TAX

The movements in deferred tax assets/(liabilities) during the year are as follows:

Group

	Deductible temporary differences HK$'000	Deferred revenue HK$'000	Intangible assets HK$'000	Total HK$'000
At 1 January 2012	40,207	—	—	40,207
Acquisition of subsidiaries	—	(152)	—	(152)
At 31 December 2012 and at 1 January 2013	40,207	(152)	—	40,055
Acquisition of subsidiaries	—	—	(3,711)	(3,711)
Credited to the consolidated statement of profit or loss during the year	—	152	742	894
At 31 December 2013	40,207	—	(2,969)	37,238

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and they relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	2013 HK$'000	2012 HK$'000
Deferred tax assets	**40,207**	40,207
Deferred tax liabilities	**(2,969)**	(152)
	37,238	40,055

20. GOODWILL

	The Group HK$'000
Cost:	
At 1 January 2012	—
Acquisition of subsidiaries	290,778
At 31 December 2012 and 1 January 2013	290,778
Acquisition of subsidiaries	330,757
At 31 December 2013	621,535
Accumulated impairment:	
At 1 January 2012, 31 December 2012 and 1 January 2013	—
Impairment loss recognised	33,256
At 31 December 2013	33,256
Net carrying amount:	
At 31 December 2013	588,279
At 31 December 2012	290,778

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20. GOODWILL *(CONTINUED)*

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segment as follows:

	Notes	2013 HK$'000	2012 HK$'000
Sales of wooden furnishing products	*(i)*	**330,757**	—
Information and technology services	*(ii)*	**257,522**	290,778
		588,279	290,778

(i) Sales of wooden furnishing products

During the year ended 31 December 2013, the Group acquired entire issued share capital of Chang Ye Holdings Limited ("Chang Ye Group") and Red Hero International Limited ("Red Hero Group") and therefore recognised the goodwill of approximately HK$35,931,000 and HK$294,826,000 upon the completion of the acquisition respectively. Such goodwill has allocated to the business segment of wooden furnishing products since acquisition.

Chang Ye Group

The Group performed its annual impairment test for goodwill allocated to the Chang Ye Group by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five year period approved by senior management have been extrapolated with an estimated general annual growth of 3% for a five-year period. The discount rate used of 25.38% reflects specific risks related to the relevant segment. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

Red Hero Group

The Group performed its annual impairment test for goodwill allocated to the Red Hero Group by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five year period approved by senior management have been extrapolated with an estimated general annual growth of 3% for a five-year period. The discount rate used of 25.05% reflects specific risks related to the relevant segment. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

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20. GOODWILL *(CONTINUED)*

(ii) Information and technology services

The Group performed its annual impairment test for goodwill allocated to the information and technology services CGU by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five year period approved by senior management have been extrapolated with an estimated general annual growth of 3% (2012: 3%) for a five-year period. The discount rate used of 22.18% (2012: 20.1%) reflects specific risks related to the relevant segment. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

During the year ended 31 December 2013, due to the unsatisfactory performance of information and technology services segment in 2013, the Group recognised an impairment loss of approximately HK$33,256,000 (2012: Nil).

21. INVENTORIES

	Group	
	2013	2012
	HK$'000	*HK$'000*
Raw materials	**47,551**	1,222
Work in progress	**—**	—
Finished goods	**323**	235
	47,874	1,457

22. 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	
	2013	2012
	HK$'000	*HK$'000*
Loan receivables	**2,183**	24,800
Classified as non-current assets	**(123)**	(1,450)
Current assets	**2,060**	23,350

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22. 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	
	2013	2012
	HK$'000	*HK$'000*
Repayable:		
Within 3 months	**15**	14,145
3 months to 1 year	**2,045**	9,205
Over 1 year	**123**	1,450
	2,183	24,800
Classified as current assets	**(2,060)**	(23,350)
Non-current assets	**123**	1,450

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

	Group	
	2013	2012
	HK$'000	*HK$'000*
Neither past due nor impaired	**2,183**	20,700
1 to 3 months past due	**—**	4,100
	2,183	24,800

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.

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23. TRADE AND BILLS RECEIVABLES

	Group	
	2013	2012
	HK$'000	*HK$'000*
Trade and bills receivables	**177,285**	1,839
Impairment	**(10,796)**	(129)
	166,489	1,710

Trading of household furnitures are with credit terms of 30 to 180 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	
	2013	2012
	HK$'000	*HK$'000*
Current	**126,640**	1,562
31-60 days	**26,097**	—
61-90 days	**10,891**	22
91-180 days	**2,800**	126
Over 180 days	**10,857**	129
	177,285	1,839

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

	Group	
	2013	2012
	HK$'000	*HK$'000*
At 1 January	**129**	—
Impairment losses recognised	**10,796**	129
Amount written off	**(129)**	—
At 31 December	**10,796**	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$10,796,000 (2012: HK$129,000) with a carrying amount before provision of approximately HK$10,796,000 (2012: HK$129,000).

23. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

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

	Group	
	2013	2012
	HK$'000	*HK$'000*
Neither past due nor impaired	**166,300**	1,562
Less than 1 month past due	**161**	22
1 to 3 months past due	**16**	—
Over 3 months past due	**12**	126
	166,489	1,710

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.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other receivables	**12,438**	5,484	**120**	120
Less: impairment	**(905)**	(764)	**—**	—
	11,533	4,720	**120**	120
Prepayments and deposits	**52,576**	3,255	**29,822**	305
Advance to suppliers	**200,980**	—	**—**	—
	265,089	7,975	**29,942**	425

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

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

	Group	
	2013	2012
	HK$'000	*HK$'000*
At 1 January	**764**	764
Impairment losses recognised	**141**	—
At 31 December	**905**	764

Included in the above provision for impairment of the Group's other receivables is a provision for individually impaired other receivables of HK$141,000 (2012: HK$Nil) with a carrying amount before provision of HK$764,000 (2012: HK$764,000).

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Neither past due nor impaired	**11,533**	4,720	**120**	120
More than 3 months past due	**—**	—	**—**	—
	11,533	4,720	**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.

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25. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2013	2012
	HK$'000	*HK$'000*
Listed equity investments, at market value:		
Hong Kong	**68,214**	27,775

The above equity investments at 31 December 2012 and 2013 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.

Certain listed equity investments of the Group were pledged to secure the trade finance facilities granted to the Group (note 28).

26. 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	
	2013	2012
	HK$'000	*HK$'000*
At 1 January	**2,672**	—
Subscription of convertible note receivable	**—**	**2,601**
Imputed interest income	**279**	**71**
At 31 December	**2,951**	**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 and fall due on 28 August 2014.

As at 31 December 2013, the convertible note of amount HK$2,951,000 was classified as current asset. (2012: HK$2,672,000 was classified as non-current asset.)

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$1 at the beginning and closing of the reporting period. The fair value of the Early Redemption Right is HK$ Nil at the beginning and end of the reporting period.

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27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances				
Time deposits	**38,286**	11,287	**12,328**	37
	1,046	6,235	**—**	—
	39,332	17,522	**12,328**	37
Less: Pledged time deposits secured for banking facilities	**(1,046)**	(6,235)	**—**	—
Cash and cash equivalents	**38,286**	11,287	**12,328**	37

At 31 December 2013, approximately HK$19,217,000 (2012: HK$412,000) 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 Exchanges Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

28. BANK OVERDRAFTS, BANK LOAN AND STRICT BONDS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank borrowings				
Bank overdrafts, secured *(note (i))*	**2,324**	466	**—**	—
Bank loans, secured *(note (i) and (ii))*	**45,686**	—	**—**	—
	48,010	466	**—**	—
Other borrowings				
Fixed rate bonds, unsecured *(note (iii))*	**223,000**	—	**223,000**	—
Total borrowings	**271,010**	466	**223,000**	—
Less: amount due within one year shown under current liabilities	**(48,010)**	(466)	**—**	—
Non-current liabilities	**223,000**	—	**223,000**	—

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28. BANK OVERDRAFTS, BANK LOAN AND STRICT BONDS *(CONTINUED)*

Notes:

(i) The bank loan of HK$3,182,000 comprise of bank overdrafts of HK$2,324,000 (2012: HK$466,000) and bank loan of approximately HK$858,000 (2012: Nil) are secured by:

(a) Bank deposit of the Group of approximately HK$1,046,000 (2012: HK$6,235,000); and

(b) Certain listed equity investment of the Group of approximately HK$4,309,000 (2012: HK$3,100,000)

In addition, such loan is supported by the following guarantees:

(a) guarantee given by a director of a subsidiary of HK$13,000,000 (2012: HK$13,000,000); and

(b) personal guarantee of HK$6,500,000 (2012:HK$26,500,000) and HK$15,000,000 (2012: HK$68,000,000) given by a former director and a non-executive director of the Company respectively.

The effective interest rate of the loan was 5.25% per annum and repayable within a year.

(ii) The bank loan of RMB35,000,000 (approximately equivalent to HK$44,828,000) are personal guarantee of RMB35,000,000 (approximately equivalent to HK$44,828,000) by a director of the Company and his spouse; secured by certain land and buildings held by 中山嘉冠實業有限公司, a related company controlled by a director and his spouse. The effective interest rate of the loan was 6.6% per annum and repayable within a year.

(iii) During the year ended 31 December 2013, the Company issued certain fixed rate unsecured bonds repayable ranging from 2 to 8 years. The fixed coupon rate and effective interest rate are ranging from 5% to 7.5% per annum in which approximately of HK$178,000,000 can be early redeemed on demand by the Company.

The fixed rate bonds are repayable as follows:

	Group and Company	
	2013	2012
	HK$'000	*HK$'000*
Between two to five years	**143,000**	—
After five years	**80,000**	—
	223,000	—

(iv) The carrying amounts of borrowings are denominated in the following currencies:

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollar	**226,182**	466	**223,000**	—
Renminbi	**44,828**	—	**—**	—
	271,010	466	**223,000**	—

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29. TRADE PAYABLES

An aged analysis of trade payables of the Group is as follows:

	Group	
	2013	2012
	HK$'000	*HK$'000*
Current	**5,565**	1,646
31-60 days	**3,653**	334
61-90 days	**6,270**	—
91-180 days	**23,324**	—
Over 180 days	**699**	—
	39,511	1,980

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

30. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2013	2012	**2013**	2012
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	*i*	**6,626**	325	**—**	—
Amounts due to directors	*ii*	**18,712**	—	**—**	—
Amounts due to related parties	*ii*	**1,593**	—	**—**	—
Receipt in advance		**140**	653	**—**	—
Accruals		**14,309**	2,451	**8,165**	806
		41,380	3,429	**8,165**	806

Notes:

(i) Other payables are unsecured, non-interest-bearing and have an average terms of three months.

(ii) The balances are unsecured, interest-free and repayable on demand.

31. CONVERTIBLE BONDS

The liabilities component of convertible bonds at 31 December is as follows:

	Group and Company	
	2013	2012
	HK$'000	*HK$'000*
CB1	**11,192**	—
CB3	**325,115**	—
CN1	**187**	2,591
Total	**336,494**	2,591

31. CONVERTIBLE BONDS *(CONTINUED)*

Convertible Bonds issued in 2013

On 10 July 2013, the Company issued 2% convertible bonds with an aggregate nominal value of HK$71,916,160 (the "CB 1"). The maturity date of the CB 1 is at the end of 30th months of the date of issue of the convertible bonds. The rights to convert into approximately 97,184,000 conversion shares at initial conversion price of HK$0.74 per conversion share. Up to 31 December 2013, the CB1 with nominal value of HK$51,800,000 have been converted, at a conversion price of HK$0.74 into 70,000,000 ordinary shares, respectively, of HK$0.001 each. The outstanding principal amounts of the CB1 as at 31 December 2013 was HK$20,116,160.

	Group and Company		
	Liability component *HK$'000*	Equity Component *HK$'000*	Total *HK$'000*
At 1 January 2013	—	—	—
Issue of convertible bonds	38,445	33,471	71,916
Conversion of share during the period	(27,795)	(24,109)	(51,904)
Imputed Interest expense	781	—	781
Interest payable	(239)	—	(239)
At 31 December 2013	11,192	9,362	20,554

On 11 October 2013, the company issued 3% convertible bonds with principal value of HK$143,000,000 (the "CB 2") as a consideration for the acquisition of subsidiaries (note 36). The maturity date of the CB 2 is the 3rd anniversary of the date of the issue of the CB2. The CB2 are convertible into ordinary shares of the Company during the period commencing on the date issue of the CB 2 and expiring on the maturity date at the initial conversion price of HK$1.00 per share. The CB 2 carries interest at a rate of 3% per annum which is payable annually in arrears after the date of issue. Pursuant to the agreement of the convertible bonds, no interest payables for the conversion within 1 year after the date of issue. Up to 31 December 2013, the convertible bonds have been converted, at a conversion price of HK$1.00, into 143,000,000 ordinary shares, respectively, of HK$0.001 each.

	Group and Company		
	Liability component *HK$'000*	Equity Component *HK$'000*	Total *HK$'000*
At 1 January 2013	—	—	—
Issue of convertible bonds	78,949	64,051	143,000
Conversion of share during the period	(80,893)	(64,051)	(144,944)
Imputed Interest expense	1,944	—	1,944
At 31 December 2013	—	—	—

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31. CONVERTIBLE BONDS *(CONTINUED)*

Convertible Bonds issued in 2013 *(continued)*

On 31 December 2013, the Company issued 2% convertible bonds with principal value of HK$480,000,000 (the "CB 3") as a consideration for the acquisition of subsidiaries (note 36). The maturity date of the CB 3 is the 3rd anniversary of the date of the issue of the CB 3. The CB 3 carries interest at a rate of 2% per annum which is payable annually in arrears after the date of issue. The rights to convert the CB 3 into ordinary shares of the Company on or before the third anniversary from the issue date of the CB 3 with the conversion price of HK$0.90 per share, subject to adjustments. The Company is entitled to early redeem the CB 3 in whole or in part at a price equal the outstanding principal amount plus interest accrued thereon. The CB 3 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".

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

	Group and Company		
	Liability component HK$'000	Equity Component HK$'000	Total HK$'000
At 1 January 2013	—	—	—
Issue of convertible bonds	325,115	154,885	480,000
At 31 December 2013	325,115	154,885	480,000

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. 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".

31. CONVERTIBLE BONDS *(CONTINUED)*

Convertible Note issued in 2012 *(continued)*

	Group and the Company		
	Liability component	**Equity component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2012	—	—	—
Issue of convertible note	2,497	47,503	50,000
Imputed interest expenses	94	—	94
At 31 December 2012 and at 1 January 2013	2,591	47,503	50,094
Conversion into share during the year	(1,760)	(41,802)	(43,562)
Imputed interest expense	129	—	129
Interest payable	(773)	—	(773)
At 31 December 2013	187	5,701	5,888

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 "CB2010"). The maturity date of the CB2010 is on 30 March 2013. The CB2010 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 CB2010 carries interest at a rate of 2% per annum, which was payable annually in arrears on 30 March. Up to 31 December 2010, the CB2010 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$0.001 each. The Company had early redeemed part of the CB2010 of HK$170,000,000 before the maturity date during the year ended 31 December 2010. The outstanding principal amounts of the CB2010 as at 31 December 2010 was HK$686,800,000.

During the year ended 31 December 2011, the Company has early redeemed part of the CB2010 with principal amount of HK$320,000,000 before the maturity date. The outstanding principal amounts of the CB2010 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 CB2010 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 CB2010 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 CB2010.

In May 2012, the bondholder transferred the CB2010 with principal amount of HK$18,000,000 to an independent third party (the "New Bondholder"). According to the terms and conditions of the CB2010, the New Bondholder is no longer entitled to any redemption and should convert the CB2010 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 CB2010 of HK$15,895,000 and HK$5,523,000, respectively, were transferred to "Shares to be issued" under equity of the Company.

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31. CONVERTIBLE BONDS *(CONTINUED)*

Convertible Bond issued in 2010 *(continued)*

The movement of the liability component of CB2010 is as follows:

	Group and Company Liability component HK$'000
At 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 and 2013	—

32. PROMISSORY NOTES

	Group	
	2013 HK$'000	2012 HK$'000
At 1 January	**321,914**	—
Promissory notes issued *(note a, b and c)*	**60,000**	401,698
Fair value change on issuance of promissory notes	**(9,192)**	(78,325)
Less: Shortfall of guaranteed revenue *(note b)*	**(41,852)**	(13,379)
Early redemption *(note c)*	**(106,894)**	—
Imputed interest expenses	**36,450**	11,920
Interest paid/payable	**(8,760)**	—
At 31 December	**251,666**	321,914

	Company	
	2013 HK$'000	2012 HK$'000
At 1 January	**148,968**	—
Promissory notes issued	**60,000**	173,698
Fair value change on issuance of promissory notes	**(9,192)**	(29,906)
Early redemption	**(106,894)**	—
Imputed interest expenses	**14,531**	5,176
Interest paid/payable	**(8,760)**	—
At 31 December	**98,653**	148,968

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32. PROMISSORY NOTES *(CONTINUED)*

Notes:

(a) On 3 January 2013, the Company issued a promissory note with principal value of HK$60,000,000 (the "PN3"). The PN3 bears interest at 4% per annum and fall due on 31 March 2016 (the "PN3 Maturity Date"). The Company has the right to redeem in full or in part of the principal amount of the PN3 prior to the PN3 Maturity Date ("the PN3 Early redemption Right"). The fair values of the PN3 and the PN3 Early Redemption Right at the date of issuance were approximately HK$50,808,000 and HK$Nil respectively.

The PN3 is subsequently measured at amortised cost, using effective interest rate of 10.18%. As at 31 December 2013, the carrying amount of the PN3 was approximately HK$53,557,000.

The PN3 was held by Jolly Treasure Developments Limited ,a related company controlled by Mr. Kuang Yuanwei, a executive director of the Company. During the year ended 31 December 2013, imputed interest of approximately HK$5,130,000 was charge to profit or loss of the Group. In addition, no interest has been paid in connection to this promissory note.

(b) 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 "PN 1") as a partial consideration for the acquisition of subsidiaries. The PN bears interest at 3% per annum and is payable on 3 September 2015 (the "PN 1 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 issuance were approximately HK$179,581,000 and HK$Nil respectively.

Pursuant to the Deed of Variation, there was a shortfall of guaranteed revenue of m3 Group in 2012 and 2013 of approximately HK$13,379,000 and HK$41,852,000 respectively, which were deducted from the principal amount of PN1.

The PN1 is subsequently measured at amortised cost, using effective interest rate of 11.52%. As at 31 December 2013, the carrying amount of the PN1 was approximately HK$153,014,000 (2012: HK$172,946,000).

(c) In October 2012, the Company early redeemed the convertible bonds issued in 2010 ("CB 2010") 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 CB 2010. 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"). During the year ended 31 December 2013, certain amount of PN2 with principal amount of approximately HK$123,073,000 with carrying amount of approximately HK$106,894,000 have been redeemed by (i) cash of approximately HK$43,049,000; (ii) offseting of the aggregate amount of the loan receivable of approximately HK$8,108,000; and (iii) issuing of convertible bonds in the principal amount of approximately HK$71,916,000 with the rights to convert into approximately 97,184,000 conversion shares at initial conversion price of HK$0.74 per conversion share (the "CB1") respectively. The convertible bonds bear interest 2% per annum and payable at the end of 30th months of the date of issue of the convertible bonds.

The PN2 is subsequently measured at amortised cost, using effective interest of 11.04%. As at 31 December 2013, the carrying amount of the PN2 was approximately HK$45,095,000 (2012: HK$148,968,000).

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33. SHARE CAPITAL

Authorised:

	No. of shares	*HK$'000*
As at 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013 (HK$0.001 each)	1,500,000,000,000	1,500,000

Issued and fully paid:

	No. of shares	*HK$'000*
As at 1 January 2012 (HK$0.001 each)	404,941,844	405
Issue of shares through placement *(note a)*	80,980,000	81
Open offer *(note b)*	1,700,726,454	1,701
As at 31 December 2012 and 1 January 2013 (HK$0.001 each)	2,186,648,298	2,187
Issue of shares upon the conversion of convertible bonds *(note c)*	579,666,666	579
As at 31 December 2013 (HK$0.001 each)	2,766,314,964	2,766

Notes:

Movements during the year ended 31 December 2012:

(a) 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$15,500,000, 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.

(b) 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$204,000,000 and HK$196,000,000, respectively. The Company intends to apply such net proceeds from the Open Offer (i) as to HK$100,000,000 for the early redemption of the Convertible Bonds; (ii) as to HK$40,000,000 for the redemption of the promissory note which will be issued upon the m3 Acquisition; (iii) as to HK$20,000,000 for the development of the money lending business; and (iv) as to approximately HK$36,000,000 for working capital of the Group. The usage of HK$40,000,000 as mentioned in (ii) above was changed from the redemption of promissory note to cash payment of HK$40,000,000 for m3 Acquisition.

On 10 October 2012, the board of directors passed a resolution to change the usage of cash amounting to HK$20,000,000 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.

33. SHARE CAPITAL *(CONTINUED)*

Notes: (continued)

Movement during the year ended 31 December 2013:

(c) During the year ended 31 December 2013, certain Convertible Bonds and Convertible Notes with an aggregate principal amount of HK238,800,000 were converted into 579,666,666 ordinary shares of the Company as set out as below:

i. CN 1 with aggregate principal amount of HK$44,000,000 were converted into 366,666,666 ordinary shares of the Company at a conversion price of HK$0.12 each

ii. CB 1 with aggregate principal amount of HK$51,800,000 were converted into 70,000,000 ordinary shares of the Company at a conversion price of HK$0.74 each

iii. CB 2 with aggregate principal amount of HK$143,000,000 were converted into 143,000,000 ordinary shares of the Company at a conversion price of HK$1.00 each

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

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34. RESERVES *(CONTINUED)*

(b) Company

	Share premium* HK$'000	Contributed surplus* HK$'000	Employee share option reserves* HK$'000	Equity component of convertible bonds HK$'000	Accumulated losses* HK$'000	Total HK$'000
At 1 January 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 and at 1 January 2013	1,423,801	511,838	3,587	47,503	(353,175)	1,633,554
Issue of convertible bonds	—	—	—	252,407	—	252,407
Issue of shares upon conversion of convertible bonds	239,830	—	—	(129,962)	—	109,868
Total comprehensive income for the year	—	—	—	—	(45,266)	(45,266)
At 31 December 2013	1,663,631	511,838	3,587	169,948	(398,441)	1,950,563

* These reserves accounts comprise the reserves of approximately HK$1,780,615,000 (2012: HK$1,586,051,000) 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; 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.

35. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company has a share option scheme (the "2002 Share Option Scheme") which was adopted on 27 May 2002, valid and effective for a period of 10 years from that date. The 2002 Share Option Scheme was expired on 27 May 2012. No further options could thereafter be offered under the 2002 Share Option Scheme but provision of the 2002 Share Option Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the 2002 Share Option Scheme and options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the 2002 Share Option Scheme.

A new share option scheme (the "2013 Share Option Scheme") of the Company was adopted and approved by the Company at the special general meeting of the Company held on 28 June 2013 whereby the Directors of the Company are authorized, to invite the eligible person including but not limited to any directors (whether executive or non-executive and whether independent or not) and any employee (whether full time or part time) of the Group or any other person, who, at the sole discretion of the Board, has contributed to the Group, to take up options, to take up options to subscribe the ordinary shares of the Company (the "Shares") as incentives and rewards for their contribution to the Group. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant. The 2013 Share Option Scheme shall be valid and effective for a period of 10 years ending on 28 June 2023, after which no further options will be granted.

The exercise price of options is determined by the board of Directors at its sole discretion, save that such price will not be less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; or (c) the nominal value of the Share.

The total number of Shares issued and to be issued upon exercise of the options granted to each Eligible person in any twelve-month period is limited to 1% of the issued share capital of the Company.

The 2013 Share Option Scheme of the Company was adopted and approved by the Company at the special general meeting of the Company held on 28 June 2013, which is valid and effective for a period of 10 years commencing on 28 June 2013.

No share option was granted, forfeited, exercised or expired under the 2013 Share Option Scheme since its adoption on 28 June 2013.

NOTES TO THE FINANCIAL STATEMENTS

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

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

At 31 December 2013, a total of 260,547 (2012: 260,547) share options were still outstanding under the 2002 Share Option Scheme as follows:

	Grant Date	At 1 January 2013 and 31 December 2013	Exercise period	Exercise price per share
Non-executive director				
Mr. Yiu Kowk Ming, Tommy	26.9.2006	48,238	30.11.2007-25.9.2016	4.66
	11.6.2008	57,917	11.6.2008-10.6.2018	33.19
Sub-total		106,155		
Other eligible employees	26.9.2006	96,476	30.11.2007-25.9.2016	4.66
	11.6.2008	57,916	11.6.2008-10.6.2018	33.19
		260,547		

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

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

No employee share option expenses of related to the above grants of share options are charged to the consolidated statement of profit or loss over the vesting period (2012: HK$334,000). The estimate of the fair value of the share options granted is measured 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 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.

Up to the date of approval of these financial statements, no share option was exercised under the 2002 Share Option Scheme.

NOTES TO THE FINANCIAL STATEMENTS

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36. BUSINESS COMBINATION

Acquisition of m3 Technology Development Limited and its subsidiaries during the year ended 31 December 2012

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.

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

	2012 *HK$'000*
Property, plant and equipment	99
Intangible assets	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	(152)
Total identifiable net assets at fair value	45,423
Goodwill on acquisition	290,778
	336,201
Consideration was satisfied by the fair value of:	
Cash	120,000
Convertible bonds	50,000
Promissory notes	166,201
	336,201

36. BUSINESS COMBINATION *(CONTINUED)*

Acquisition of m3 Technology Development Limited and its subsidiaries during the year ended 31 December 2012 *(continued)*

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	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)

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 ended 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.

Acquisition of Chang Ye Holdings Limited and its subsidiaries during the year ended 31 December 2013

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") and its subsidiaries (the "Chang Ye Group") at the consideration of HK$60,000,000 ("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 wooden products 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$60,000,000. The acquisition of Chang Ye was completed on 3 January 2013.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

36. BUSINESS COMBINATION *(CONTINUED)*

Acquisition of Chang Ye Holdings Limited and its subsidiaries during the year ended 31 December 2013 *(continued)*

Pursuant to the sales and purchase agreement, the profit guarantee for Chang Ye Group's total net profit after tax for the years ended/ending 31 December 2013, 2014 and 2015 shall not be less than HK$15,000,000. In the event of guaranteed profit cannot be met, the shortfall amount will set off against the principal amount of promissory note with a cap of HK$15,000,000 each year. The fair value of the profit guarantees of Chang Ye Group was nil at the date of acquisition based on valuation performed by Roma Appraisals Limited, by using a probabilistic model.

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

	2013 *HK$'000*
Property, plant and equipment	1,882
Intangible assets	14,846
Inventories	17,618
Cash and bank equivalents	89
Trade receivables	7,078
Prepayments and other receivables	3,207
Trade payables	(10,267)
Other payables and accruals	(10,749)
Amounts due to a director	(4,978)
Tax payables	(138)
Deferred tax liabilities	(3,711)
Total identifiable net assets at fair value	14,877
Goodwill on acquisition	35,931
	50,808
Consideration was satisfied by the fair value of:	
Promissory notes	50,808

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

	HK$'000
Cash and cash equivalents acquired	89
Net cash inflow of cash and cash equivalents	89

Since the acquisition, the Chang Ye Group contributed approximately HK$922,357,000 to the Group's revenue and approximately HK$194,006,000 to the consolidated profit for the year ended 31 December 2013.

Had the combination taken place at the beginning of the period, the revenue and the profit of the Group would have been approximately HK$922,357,000 and approximately HK$194,006,000, respectively.

36. BUSINESS COMBINATION *(CONTINUED)*

Acquisition of Red Hero International Limited and its subsidiaries during the year ended 31 December 2013

On 7 August 2013, Success Base Management Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party (the "Vendor") for the acquisition of the entire issued share capital of Red Hero International Limited ("Red Hero") and its subsidiaries (the "Red Hero Group") at a consideration of HK$480,000,000 ("Red Hero Acquisition"). Red Hero International Limited is a company incorporated in the British Virgin Islands, and its subsidiary, have been incorporated recently with no material assets and liabilities and the wholly foreign-owned enterprise ("WOFE") will be incorporated in PRC. WOFE will be principally engaged in providing virtual interior design simulation and electronic household product trading platform for selling the Company's household products. The consideration would be satisfied by the allotment and issue of Convertible Bonds of HK$480,000,000 subject to the adjustment of the amount of profit guarantee for the relevant profit generated period. The acquisition of Red Hero was completed on 31 December 2013.

Pursuant a sales and purchase arrangement, the profit guarantee for Red Hero Group's total net profits after tax for the financial years ending 31 December 2014, 2015 and 2016 shall not be less than HK$2,600,000 and HK$76,000,000 and HK$162,000,000 respectively. In the event of guaranteed profit cannot be met, the shortfall with set off against the principal amount of convertible bonds.

The fair value of profit guarantee of Red Hero Group was HK$185,184,000 at the date of acquisition based on valuation performed by Roma Appraisals Limited, by using a probabilistic model.

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

	2013 *HK$'000*
Other payable	(10)
Total identifiable net assets at fair value	(10)
Goodwill on acquisition	294,826
	294,816
Consideration was satisfied by the fair value of:	
Convertible bonds	480,000
Other financial assets	(185,184)
	294,816

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

Cash and cash equivalents acquired	—
Net cash inflow of cash and cash equivalents	—

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

36. BUSINESS COMBINATION *(CONTINUED)*

Acquisition of Red Hero International Limited and its subsidiaries during the year ended 31 December 2013 *(continued)*

Since the acquisition, the Red Hero Group contributed approximately HK$ Nil to the Group's revenue and approximately HK$10,000 to the consolidated loss for the year ended 31 December 2013.

Had the combination taken place at the beginning of the period, the revenue and the loss of the Group would have been approximately HK$ Nil and approximately HK$20,000, respectively.

Acquisition of Kotewall Holdings Limited and its subsidiaries during the year ended 31 December 2013

On 23 September 2013, Bright Intentions Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party ("Vendor") for the acquisition of the entire issued share capital of Kotewall Holdings Limited ("Kotewall") and its subsidiaries (the "Kotewall Group") at a consideration of HK$143,000,000 ("Kotewall Acquisition"). Kotewall is a limited liability company incorporated in the British Virgin Islands. Kotewall Group is principally engaged in investments holding in People's Republic of China ("PRC") and did not carry out any significant business transactions on acquisition date. In the opinion of the directors, the acquisition did not constitute an acquisition of business in substance. The acquisition of the properties was then considered as acquisition of assets through acquisition of subsidiaries. Therefore, the acquisition was not accounted for as a business combination in accordance with the requirement of HKFRS 3 — Business Combination. The purchase consideration for the acquisition was satisfied by issuing Convertible Bond with an aggregate nominal value of HK$143,000,000 payable to the Vendor at the acquisition date. The convertible bonds carry interest at 3% per annum and are convertible into shares at any time after the completion of the Kotewall Acquisition. The acquisition was completed on 11 October 2013.

The Acquisition effectively represents an acquisition of assets by the Group. The fair values of the identifiable assets and liabilities of Kotewall Group at the date of acquisition were as follows:

	2013 *HK$'000*
Property , plant and equipment	24,324
Lease premiums for land	118,757
Others payable	(81)
Total identifiable net assets at fair value	143,000
Consideration was satisfied by the fair value of:	
Convertible Bond	143,000

36. BUSINESS COMBINATION *(CONTINUED)*

Acquisition of Kotewall Holdings Limited and its subsidiaries during the year ended 31 December 2013 *(continued)*

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

	HK$'000
Cash consideration	—
Cash and cash equivalents acquired	—
Net cash inflow of cash and cash equivalents	—

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Save as transactions disclosed in notes 31, 32, 35 and 36 to the financial statements, the Group had no other major non-cash transactions during the years ended 31 December 2012 and 2013.

38. COMMITMENTS

(a) Operating lease commitments

As lessee

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

At 31 December 2013, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises as follows:

	Group	
	2013 **HK$'000**	2012 *HK$'000*
Within one year	**3,804**	473
In the second to fifth years inclusive	**2,003**	108
	5,807	581

NOTES TO THE FINANCIAL STATEMENTS

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38. COMMITMENTS *(CONTINUED)*

(b) Other commitments

	Group 2013 HK$'000	2012 HK$'000
Acquisition of subsidiaries	**480,000**	60,000

As detailed in note 40(a) and 40(b), the Group had commitment in relation to the acquisition of Kassade Group and Polar Sunshine Group of HK$100,000,000 and HK$380,000,000 respectively as at 31 December 2013.

As at 31 December 2012, the Group had commitment in relation to the acquisition of Chang Ye of HK$60,000,000.

(c) Capital commitments

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

	Group 2013 HK$'000	2012 HK$'000
Contracted, but not provided for:		
Purchase of property, plant and equipment	**—**	48
Injection of capital	**54,452**	—
	54,452	48
Authorised, but not contracted for:		
Construction cost for the mining infrastructure	**641,000**	641,000

39. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(a) In addition to the transaction detailed elsewhere in these financial statements, the Group had the following transactions with the related parties during the year, some of which are also deemed to be connected parties pursuant to the Listing Rules:

Revenue/income from related parties:

Name of related parties	Nature	Notes	2013 HK$'000	2012 HK$'000
中山市新綠洲木業有限公司 (Zhongshan New Oasis Wood Products Co., Ltd.* ("New Oasis"))	Sales of goods to a related company	(i)	**154,916**	—
Ching Hing Weaving Dyeing and Printing Factory Limited	Commission income received from a related company	(ii)	**—**	31
Total			**154,916**	31

NOTES TO THE FINANCIAL STATEMENTS

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39. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(a) *(continued)*

Purchases/expenses paid to related parties:

Name of related parties	Nature	Notes	2013 HK$'000	2012 HK$'000
中山市新綠洲木業有限公司 (Zhongshan New Oasis Wood Products Co., Ltd.* ("New Oasis"))	Commission paid/payable to a related company	*(i)*	**155**	—
Ching Hing Weaving Dyeing and Printing Factory Limited	Management expenses paid/ payable to a related company	*(ii)*	**480**	840
中山市金島木業制品有限公司 (Zhongshan Jindao Wood products Co., Ltd.* ("Jindao"))	Purchase of raw material from a related company	*(iii)*	**376**	—
中山市金島木業制品有限公司 (Zhongshan Jindao Wood products Co., Ltd.* ("Jindao"))	Rental expenses paid to a related company	*(iii)*	**162**	—
Total			**1,173**	840

* The English translation of the company names is for reference only. The official names of these companies are in Chinese.

Notes:

(i) New Oasis was previously owned by an executive director of the Company Mr. Kuang Yuanwei until April 2013.

On 23 April 2013, the Group's wholly-owned subsidiary Zhongshan Prado have entered into strategic cooperation agreement with New Oasis (the "Cooperation Agreement") for the sales of goods to New Oasis and the agency fee paid to New Oasis. Details of the Cooperation Agreement can be found in the circular of the Company dated 9 August 2013.

Such transactions carried out by Zhongshan Prado with New Oasis were in accordance with the terms of the Cooperation Agreement.

Transactions with a related company is also connected transactions as defined in the chapter 14A of the Listing Rules.

(ii) A non-executive director of the Company Mr. Yiu Kwok Ming Tommy is also a director of Ching Hing Weaving Dyeing and Printing Factory Limited.

(iii) An executive director of the Company Mr. Li Zhixiong and his spouse are beneficial owner and director of Jindao. Such transactions with a related company is exempted from connected transactions as defined in the chapter 14A of the Listing Rules.

In the opinion of the directors, the transactions between the Group and the related parties were conducted in the ordinary course of business and based on prices mutually agreed between the parties and the Group.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

39. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(CONTINUED)*

(b) During the year, the key management personnel includes six executive directors (2012: five) and three non executive directors (2012: one). For details of directors' emoluments are included in note 8 to the financial statements.

40. 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 13 May 2013, Paradise Shadow Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party for the acquisition of the entire issued share capital of Kassade Investment Limited and its subsidiaries (the "Kassade Group") at a consideration of HK$100,000,000. The Kassade Group will be principally engaged in manufacturing of floor tiles, various wood frames and other household wood products. The consideration would be satisfied by way of the issue of promissory note of HK$100,000,000 subject to the adjustment of the amount of profit guarantee for the relevant profit generated period.

On 13 March 2014, the Company has entered into a second supplemental agreement. Pursuant to the second supplemental agreement, the long stop date shall be amended to 12 months upon signing of the agreement dated 13 May 2013. Up to the date of approval of the annual report, the acquisition is not yet completed.

(b) On 26 July 2013, Kingstown Development Limited, a wholly-owned subsidiary of the Company, has entered into the agreement with an independent third party for the acquisition 100% issued share capital of Polar Sunshine Wood Holdings Company Limited and its subsidiary (the "Polar Sunshine Group") at the consideration of HK$380,000,000. The Polar Sunshine Group will be principally engaged in trading of heating wooden household products and other basic materials for heating wooden household products. The consideration would be satisfied by way of the issue of convertible bond of HK$380,000,000, subject to the adjustment of the amount of profit guarantee for the relevant profit generated period. On 27 January 2014, the Company has entered into a second supplemental agreement. Pursuant to the second supplemental agreement, the long stop date shall be amended to 12 months upon signing the agreement dated 26 July 2013. Up to the date of approval of the annual report, the acquisition is not yet completed.

(c) Subsequent to the reporting period and up to the date of approval of the annual report, the Company issued certain bonds with aggregate principal amount of HK$32,000,000. The coupon rate of these bonds is ranged from 5% to 6% per annum with maturity date from January 2016 to February 2021. The proceeds from the bonds would be utilized as the general working capital of the Group.

41. 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 2013
Financial assets

	Financial assets at fair value through profit or loss-held for trading HK$'000	Loan and receivables HK$'000	Total HK$'000
Other financial assets	185,184	—	185,184
Convertible note receivable	2,951	—	2,951
Loan receivables	—	2,183	2,183
Trade and bills receivables	—	166,489	166,489
Financial assets included in other receivables, prepayments and deposits	—	212,512	212,512
Equity investments at fair value through profit or loss	68,214	—	68,214
Conversion option embedded in convertible note receivable	1	—	1
Pledged time deposits	—	1,046	1,046
Cash and cash equivalents	—	38,286	38,286
	256,350	420,516	676,866

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Bank overdrafts, secured	2,324
Bank loans, secured	45,686
Trade payables	39,511
Financial liabilities included in other payables and accruals	41,240
Strict bonds	223,000
Liability component of convertible bonds	336,494
Promissory notes	251,666
	939,921

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

41. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

Group *(continued)*

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

41. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

Company

Financial assets

	2013 Loans and receivables HK$'000	2012 Loans and receivables HK$'000
Financial assets included in other receivables, prepayments and deposits	120	123
Cash and cash equivalents	12,328	37
	12,448	160

Financial liabilities

	2013 Financial liabilities at amortised cost HK$'000	2012 Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables and accruals	8,164	806
Liability component of convertible bonds	336,494	2,591
Promissory notes	98,653	148,968
Strict bonds	223,000	—
	666,311	152,365

42. FAIR VALUE MEASUREMENT

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these financial statements on a recurring basis at 31 December 2013 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

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42. FAIR VALUE MEASUREMENT *(CONTINUED)*

Assets measured at fair value

Group

As at 31 December 2013

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Equity investments at fair value through profit or loss	68,214	—	—	68,214
Conversion option embedded in convertible note receivable	—	1	—	1
Other financial assets:				
Profit guarantee	—	—	185,184	185,184
	68,214	1	185,184	253,399

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

All of the Group's fair value measurement were revalued at the end of financial reporting date. The valuations were carried out by Roma Appraisals Limited, an independent professional qualified valuer. The Group's management have discussion with the valuer on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

During the years ended 31 December 2013 and 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The Group's policy is to recognise transfers into and out of Level 3 as at the end of the reporting date.

42. FAIR VALUE MEASUREMENT *(CONTINUED)*

Reconciliation of Level 3 fair value measurement of other financial assets as below:

	2013 *HK$'000*
At 1 January	—
Additions through acquisition of subsidiaries	**185,184**
At 31 December	**185,184**

No financial asset and liability measured at fair value under level 3 hierarchy in 2012.

Description of the valuation techniques in Level 2 fair value measurement

The conversion option embedded in convertible note receivable was valued by binomial tree option pricing model.

Description of the valuation techniques and inputs used in Level 3 fair value measurement

As described in note 17 of the financial statement, the fair value of other financial assets are measured at fair value under probabilistic model and take into consideration of whether the profit guarantee is probable to be met. The management of the Group used its internal budgets and forecasts which included information about the fair value measurement using significant unobservable inputs.

If the actual performance was 10% higher/lower than the respective expected performance, the fair value of other financial assets would have been decreased/increased by approximately HK$18,998,000 and HK$30,290,000 respectively with the corresponding loss/gain recognised in other gains or losses.

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42. FAIR VALUE MEASUREMENT *(CONTINUED)*

Fair value measurements and valuation processes

The Directors have engaged independent professional qualified valuer, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages the independent qualified valuer to perform the valuation. The Directors of the Company works closely with the qualified valuer to establish the appropriate valuation techniques and inputs to the model. The financial controller reports the findings to the board of directors of the Company every year to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank loans and overdrafts, convertible bonds, strict 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, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's interest rate risk arises primarily from the Group's bank overdrafts, bank loans and strict bonds. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. Borrowings at fixed rate are insensitive to any change in market rates. The Group's interest rate profile as monitored by management is set out in (i) below.

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

Interest rate risk *(continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2013 Effective interest rate %	**2013** HK$'000	2012 Effective interest rate %	2012 HK$'000
Fixed rate borrowings:				
Bank overdrafts secured	**5.25%**	**2,324**	5.25%	466
Bank loans	**5.25%**	**858**	—	—
Strict Bonds	**5%-7.5%**	**223,000**	—	—
Promissory notes	**10.18%-11.52%**	**251,666**	**11.04%-11.52%**	321,914
Convertible bonds	**11.52%-26.44%**	**336,494**	**11.52%-15.57%**	2,591
		814,342		324,971
Variable rate borrowings:				
Bank loans	**6.6%-16.6%**	**44,828**		—
Total borrowings		**859,170**		324,971
Fixed rate borrowings as a percentage of total borrowings		**95%**		100%

(ii) Sensitivity analysis

At 31 December 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained earnings by approximately HK$448,000 (2012: Nil).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for no derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting period. The analysis is performed on the same basis for 2012.

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

Foreign currency risk

The Group is exposed to currency risk as certain cash and cash equivalents, trade and other receivables, trade and other payables primarily through sales and purchases are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily in Renminbi ("RMB") and United States Dollars ("USD").

The Group ensures that the exposure on recognised assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate is kept to an acceptable level.

(i) Exposure to currency risk

The following table details the Group's significant exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in foreign currencies.

The Group

	2013		2012	
	RMB'000	***USD'000***	*RMB'000*	*USD'000*
Trade and bill receivables	**—**	**203**	—	127
Cash and cash equivalents	**995**	**13**	8,168	13
Trade payables	**437**	**3,585**	83	119
Bank Loans	**—**	**80**	—	—
Overall net exposure	**1,432**	**3,881**	8,251	259

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit/(loss) before tax and equity excluding retained earnings/accumulated losses in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

	Increase/ (decrease) in exchange rate %	**Decrease/ (increase) in profit/(loss) before tax *HK$'000***	**Increase/ (decrease) in equity *HK$'000***
31 December 2013			
If HKD weakens against RMB	**5%**	**86**	**—**
If HKD strengthens against RMB	**(5%)**	**(86)**	**—**
If HKD weakens against USD	**5%**	**1,514**	**—**
If HKD strengthens against USD	**(5%)**	**(1,514)**	**—**
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)	—

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

Foreign currency risk *(continued)*

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the each of the Group entities' exposure to currency risk for recognised assets and liabilities in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for 2012.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the Group's credit risk is primarily attributable to the Group's trade and other receivables and deposits with financial institutions.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and bill receivables, individual credit evaluations are performed for all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within six months from the date of billing. Normally, the Group does not obtain collateral from customers. The impairment losses on bad and doubtful debts are within management's expectation.

(i) Trade and bill receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group had certain concentration risk as 34% (2012: Nil) and 75% (2012: Nil) of the total trade and bill receivables were due from the Group's largest customer and the five largest customers, respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Group does not provide any other guarantee which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bill receivables are set out in note 23.

(ii) Deposits with financial institutions

The Group limits its exposure to credit risk by placing deposits with financial institutions with no recent history of default and high credit rating. Management does not expect any counterparty to fail to meet its obligations.

NOTES TO THE FINANCIAL STATEMENTS

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

Credit risk *(continued)*

(iii) Advance to suppliers

The advances to suppliers are generally utilised by subsequent purchase order placed by the Group within one year from the date of advancements. The Group establishes adequate credit control for determination of limits, approvals and other monitoring procedures to ensure that follow-up actions are taken to recover unutilised advance. In addition, the Group reviews the recoverable amount of the prepayment or deposits paid to suppliers at the end of each reporting period.

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*	3 months to 1 year *HK$'000*	1 to 5 years *HK$'000*	After 5 years *HK$'000*	Total *HK$'000*
2013						
Bank overdrafts, secured	**2,324**	**—**	**—**	**—**	**—**	**2,324**
Trade payables	**—**	**557**	**38,954**	**—**	**—**	**39,511**
Other payables and accruals	**41,240**	**—**	**—**	**—**	**—**	**41,240**
Convertible bonds	**—**	**—**	**—**	**336,494**	**—**	**336,494**
Promissory notes	**—**	**—**	**—**	**251,666**	**—**	**251,666**
Bank loans, secured	**45,686**	**—**	**—**	**—**	**—**	**45,686**
Strict bonds	**—**	**—**	**—**	**143,000**	**80,000**	**223,000**
	89,250	**557**	**38,954**	**731,160**	**80,000**	**939,921**
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

43. 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 as at 31 December 2013. 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*
2013			
Investments listed in:			
Hong Kong — equity investments at fair value through profit or loss	**68,214**	**3,411**	**—**

	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	—

* Excluding accumulated losses

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43. 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 2013 and 2012.

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, strict bonds less pledged bank deposits and cash and cash equivalents. Capital includes equity attributable to owners of the Company and liability component of convertible bonds.

	2013 ***HK$'000***	2012 *HK$'000*
The gearing ratios as at the end of reporting periods were as follows:		
Bank overdrafts, secured	**2,324**	466
Trade payables	**39,511**	1,980
Other payables and accruals	**41,380**	3,429
Promissory notes	**251,666**	321,914
Strict bonds	**223,000**	—
Bank loan, secured	**45,686**	—
Less:		
Pledged time deposits	**(1,046)**	(6,235)
Cash and cash equivalents	**(38,286)**	(11,287)
Net debt	**564,235**	310,267
Liability component of convertible bonds	**336,494**	2,591
Equity attributable to owners of the Company	**2,176,178**	1,650,518
Total capital	**2,512,672**	1,653,109
Total capital and net debt	**3,076,907**	1,963,376
Gearing ratio	**18%**	16%

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44. DIVIDENDS

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2013 (2012: nil).

45. COMPARATIVE AMOUNTS

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

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2014.

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.

	2013 ***HK$'000***	2012 *HK$'000*	2011 *HK$'000*	2010 *HK$'000*	2009 *HK$'000*
RESULTS					
Continuing operations					
Revenue	**939,789**	17,286	25,711	198,062	220,320
Profit/(loss) before tax	**225,838**	(19,241)	(243,198)	(76,462)	(7,341)
Income tax (expense)/credit	**(71,677)**	(749)	39,521	(585)	(540)
Profit/(loss) for the year from continuing operations	**154,161**	(19,990)	(203,677)	(77,047)	(7,881)
Discontinued operation					
Loss for the year from discontinued operation	**—**	—	—	(995)	(4,081)
Profit/(loss) for the year	**154,161**	(19,990)	(203,677)	(78,042)	(11,962)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**3,140,554**	2,000,164	1,768,847	1,844,917	132,597
Total liabilities	**(953,286)**	(333,428)	(342,182)	(570,354)	(78,663)
Shares to be issued	**(21,418)**	(21,418)	—	—	—
Non-controlling interests	**10,328**	5,200	2,358	2,537	(4,768)