中國基礎資源控股有限公司
China Primary Resources Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8117)

ANNUAL REPORT 2012

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This annual report, for which the directors (the "Directors") of CHINA PRIMARY RESOURCES HOLDINGS LIMITED (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this annual report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this annual report misleading.

Contents

Expressed in Hong Kong dollars ("HK$")

Corporate Information

Board of directors

Executive Directors

Ms. Ma Zheng *(Chairman)*
Mr. Wong Pui Yiu

Independent Non-Executive Directors

Mr. Wan Tze Fan Terence
Mr. Chung Chin Keung
Mr. Wang Xiao Bing

Registered office, head office and principal place of business

Registered office

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

Head office and principal place of business

Suite 1415
Ocean Centre
5 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

Company secretary

Mr. Wong Chun Sing

Compliance officer

Mr. Wong Pui Yiu

Audit committee

Mr. Wan Tze Fan Terence *(Chairman)*
Mr. Chung Chin Keung
Mr. Wang Xiao Bing

Nomination committee

Mr. Wan Tze Fan Terence *(Chairman)*
Mr. Chung Chin Keung
Mr. Wang Xiao Bing

Remuneration committee

Mr. Wan Tze Fan Terence *(Chairman)*
Mr. Chung Chin Keung
Mr. Wang Xiao Bing

Authorised representatives

Ms. Ma Zheng
Mr. Wong Pui Yiu

Principal bankers

Wing Hang Bank, Limited
The Hongkong and Shanghai Banking Corporation Limited

Share registrar and transfer office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Stock code

8117

Cayman Islands assistant secretary

Codan Trust Company (Cayman) Limited

Auditors

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Hong Kong share registrar

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

Chairman's Statement

It is my pleasure to present the annual results of China Primary Resources Holdings Limited (the "Company") together with its subsidiaries (collectively referred to as the "Group"), for the year ended 31 December 2012.

Results and Operation

In the year 2012, the global economic environment was unstable. Financial and debt problems faced by the United States of America and European countries affected the economic environment of the whole world, included the People's Republic of China (the "PRC"). As a PRC based operating Group, the performance and result in 2012 was not satisfactory. Significant loss was incurred due to relative low turnover and losses on impairment of assets of the Group.

Turnover of the Group for the year ended 31 December 2012 was not performing well when compared to the corresponding year in 2011. The significant decrease in turnover was mainly due to the unstable global economic condition and the slow down of the development of the property market in the PRC. The policy on property and city development in the PRC has been changing continually which directly affected the construction sector which in turn affects the demand of the Polyethylene Pipes ("PE pipes").

On top of the above, the effect of the change of major shareholders in 2011 was still affecting the customer portfolio of the Group in 2012. Therefore, the board of directors (the "Board") and management have been working closely to strengthen the sale network with existing customers and in the meantime, looking for new customers so as to expand the customer portfolio. As a result of the above, turnover of the Group was relatively lower in 2012.

As mentioned above, due to low turnover, relatively high fixed production costs and customer strengthening actions in 2012, the gross margin was not meeting target. However, with the anticipated higher turnover under improved customer portfolio, gross margin will definitely improve in 2013 and in the long term.

Due to low turnover and high fixed production costs, certain production fixed assets were impaired. I believe such impairment will put the Group in a more favourable position to compete. Moreover, some long outstanding receivables were also impaired but the Group will do its best to collect whatever amounts possible from these customers.

The business segment of the PE pipes has been the core business of the Group and continued to be the main business of the Group in 2012. The PE pipes are materials employed for construction and city development in the PRC. Our major customers are government and public entities, or their suppliers, from different provinces and cities in the PRC. Given the continual development of the PRC economy and property market in the long term, I believe that the demands for our products will increase.

Future Development

The above efforts on customer portfolio strengthen the foundation of the Group and would lead to success in the long term. Currently, the customer portfolio is stable and continues to grow. The turnover and the result of the Group will be much better in 2013 and thereafter. As the Chairman of the Company, I will continue to lead the Board and the Company to achieve our goal. I strongly believe that with the continuing efforts and support of the management team and business partners, the Group could develop into a leading manufacturer of PE pipes. In the meantime, we have been exploring possible investing opportunities to increase the Company's value. In this respect, I can assure you that the shareholders' return will be increased in the near future.

Appreciation

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, fellow directors, staff, customers, suppliers and business partners for their ongoing support and contributions. 2013 is a challenging year but, with the strong commitment and contribution from all of you, I believe the Group can achieve its goal.

MA Zheng
Chairman

Hong Kong, 21 March 2013

Management Discussion and Analysis

OPERATION REVIEW

Turnover of the Group for the year ended 31 December 2012 was not performing well when compared to the corresponding year in 2011. The Board would like to report that the significant decrease in turnover was mainly due to the unstable global economic condition and the slow down of the development of the property market in the PRC. The policy on property and city development in the PRC has been changing continually which directly affected the construction sector which in turn affects the demand of the PE pipes.

On top of the above, the effect of the change of major shareholders in 2011 was still affecting the customer portfolio of the Group in 2012. Therefore, the Board and management have been working closely to strengthen the sale network with existing customers and in the meantime, looking for new customers so as to expand the customer portfolio. As a result of the above, turnover of the Group was relatively lower in 2012. However, the above efforts on customer portfolio have strengthened the foundation of the Group and could lead to success in the long term. Currently, the customer portfolio is stable and continues to grow. The Board believes the turnover and the result of the Group will be much better in 2013 and thereafter.

As mentioned above, due to low turnover, relatively high fixed production costs and customer strengthening actions in 2012, the gross margin was not meeting target. However, with the anticipated higher turnover under improved customer portfolio, gross margin will definitely improve in 2013 and in the long term.

The business segment of the PE pipes has been the core business of the Group and continued to be the main business of the Group in 2012. The PE pipes are materials employed for construction and city development in the PRC. Our major customers are government and public entities, or their suppliers, from different provinces and cities in the PRC. Given the continual development of the PRC economy and property market in the long term, the Board believes that the demands for our products are both sustainable and look set to increase.

During the year under review, the management recovered significant amount of long outstanding debts. After making further specific provisions in 2012, the Board does not foresee any significant recoverability problem of trade debts in the near future. The Board will continue to monitor the assets and cash flow of the Group carefully.

Deed of Settlement and the disposal of subsidiaries

On 17 September 2010, the Company, Lehman Brothers Commercial Corporation Asia Limited ("Lehman Brothers") (as Bondholder) and the joint and several liquidators of Lehman Brothers appointed by the order of the Court of First Instance of Hong Kong (the "Liquidators") signed the deed of settlement (the "Deed of Settlement") for the redemption of the 4.5% convertible bonds of the Company in the principal amount of HK$246,250,000 issued by the Company to Lehman Brothers pursuant to the subscription agreement dated 12 June 2007 (the "Convertible Bonds").

Pursuant to the Deed of Settlement, the Company paid to the Bondholder a sum of HK$85 million in November 2010 and will transfer the Sale Interest (as defined below) to the Bondholder or any third party as directed by the Bondholder.

The Sale Interest represents 100% of the issued share capital of Zhong Ping Resources Holdings Limited ("Zhong Ping") (being the holder of the 70% equity interest in ARIA LLC ("ARIA"), a company incorporated in Mongolia with limited liability), or, at the sole and absolute discretion of the Bondholder, all of the assets held directly or indirectly by Zhong Ping. Zhong Ping, through ARIA, holds the majority interest of the mining rights in respect of the green field exploration project namely the Mungun-Undur Polymetallic Project (the "Project") located at Mungun-Undur, Khentii Province, Mongolia. The Project has prospects for silver, lead, zinc and tin mineralization.

Up to the date of this annual report, the completion of the Deed of Settlement and the disposal are still in progress. Pursuant to the Deed of Settlement, completion of the Deed of Settlement is conditional upon the fulfilment or waiver of certain conditions on or before 31 October 2011 or such later date as may be agreed between the Company and the Bondholder (the "Long Stop Date"). In order to allow more time for the transfer of the Sale Interest, the Company, the Bondholder and the Liquidators have entered into seven extension letters on 28 October 2011, 28 December 2011, 24 February 2012, 27 March 2012, 29 May 2012, 28 August 2012 and 27 December 2012 respectively to extend the Long Stop Date from 31 October 2011 to 31 December 2011, 29 February 2012, 30 March 2012, 30 May 2012, 31 August 2012, 31 December 2012 and 30 June 2013 respectively or such other date as may be agreed by the parties thereto. Save for the change in the Long Stop Date, all other terms and conditions of the Deed of Settlement remain unchanged and shall continue in full force and effect.

Details are set out in the announcements dated 27 September 2010, 12 November 2010, 28 October 2011, 28 December 2011, 24 February 2012, 27 March 2012, 29 May 2012, 28 August 2012 and 27 December 2012 and the circular dated 11 October 2010 of the Company.

FINANCIAL REVIEW

Turnover was approximately HK$39,192,000 for the year ended 31 December 2012, which represented a decrease of approximately 56.3% when compared with last year's turnover of approximately HK$89,699,000. Turnover of the Group during the year under review was not as good as the corresponding year in 2011. The Board believes the significant decrease in turnover was mainly due to (i) the unstable global, especially Europe, economic environment; (ii) slow down of the development of the property market in the PRC which directly affected the construction sector which in turn affects the demand of PE pipes; and (iii) continued effect from the change of major shareholders in 2011.

During the year under review, the audited loss before income tax was approximately HK$76,236,000 (2011: approximately HK$50,994,000). The loss attributable to owners of the Company was approximately HK$76,550,000 (2011: loss of approximately HK$50,994,000). In the current economic environment, the Board will continue to exercise stringent cost control and maintain a low and effective overheads structure and prudently utilise the Group's corporate resources to create wealth for the shareholders of the Company.

BUSINESS OUTLOOK AND PROSPECTS

The business of production and sale of the PE pipes were not performing well in the year 2012. However, the Board believes that this business segment will start to grow and perform much better in the year 2013 onwards. The Group has been building an effective sales team to explore new markets and identify more customers for its products.

With the anticipated completion of the Deed of Settlement in 2013 and the continued development of the pipes manufacturing business, the Group is targeting to become one of the largest PE pipes manufacturers in the market.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the net assets of the Group were approximately HK$283,704,000 (2011: approximately HK$356,177,000) while its total assets were approximately HK$582,189,000 (2011: approximately HK$656,670,000) including cash and bank balances of approximately HK$7,111,000 (2011: approximately HK$31,539,000).

FUNDING ACTIVITIES DURING THE YEAR

The Company did not carry out any fund raising activities during the year under review.

GEARING RATIO

As at 31 December 2012, current assets of the Group amounted to approximately HK$390,966,000 which included cash of approximately HK$922,000 and RMB4,976,000 and assets classified as held for sale of HK$207,612,000 while current liabilities stood at approximately HK$298,485,000 which included convertible bonds of HK$246,250,000 and liabilities associated with assets classified as held for sale of HK$29,510,000. Shareholders' funds amounted to approximately HK$249,799,000. In this regard, the Group was in a net assets position and had a gearing ratio of approximately 95.7% (convertible bonds less cash balances to equity attributable to owners of the Company) as of 31 December 2012. The gearing ratio would be nil if assets classified as held for sale, liabilities associated with assets classified as held for sale and convertible bonds were included.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Sales and payment of the Group are denominated in Hong Kong dollars and Renminbi ("RMB"). The Group's cash and bank deposit were mainly denominated in Hong Kong dollars and RMB, and the business is mainly operated in the PRC. The only foreign currency exposure comes mainly from the funds movement between Hong Kong and the PRC. With the anticipated appreciation of RMB, the Group's foreign currency exposure was minimal for the year under review, except for certain materials purchases. No hedging or other alternatives had been implemented for foreign currency exposure. However, the Group will continue to monitor closely the exchange rate movements and will enter into hedging arrangements in future if necessary.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any significant contingent liabilities and no other assets of the Group were pledged.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 7 to the financial statements.

CAPITAL STRUCTURE

The ordinary shares of the Company were initially listed on the GEM of the Stock Exchange on 13 December 2001. As at 31 December 2012, the issued share capital of the Company was made up of 2,414,404,920 ordinary shares of HK$0.0125 each.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES/FUTURE PLANS FOR MATERIAL INVESTMENTS

Save as disclosed above, there was no material acquisition or disposal of subsidiaries and affiliated companies during the year.

SIGNIFICANT INVESTMENTS

The Group made certain investments through financial products issued by licensed banks in the PRC. Other than that, the Group had not made any significant investment for the year ended 31 December 2012.

EMPLOYEE INFORMATION

As at 31 December 2012, the Group had 5 full-time employees working in Hong Kong and 90 full-time employees working in the PRC. Total employees' remuneration for the year under review amounted to approximately HK$10,864,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Biographical Details of Directors and Senior Management

Directors

Ms. Ma Zheng, aged 46

Chairman and Executive Director

Ms. Ma joined the Group in February 2004. She is currently the chairman and the major shareholder of the Company. Ms. Ma has over 23 years of experience in international trade, electronic industry and corporation management. She graduated from Wuhan University majoring in construction structure engineering.

Mr. Wong Pui Yiu, aged 50

Executive Director

Mr. Wong joined the Group in February 2008. He has over 12 years of experience in business administration and corporate management. He is currently the general manager of Smart Honest Group Limited which has been a distributor of semiconductors since 2004.

Mr. Wan Tze Fan Terence, aged 48

Independent Non-executive Director

Mr. Wan joined the Group in March 2004. Mr. Wan holds a bachelor degree in commerce and a master degree in business administration. Mr. Wan has years of experience in accounting and financial management. He had worked for international accounting firms and listed companies in Hong Kong. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and a Certified Practicing Accountants of CPA Australia. Currently, he is an executive director of Sino Oil and Gas Holdings Limited, which is listed on the main board of The Stock Exchange of Hong Kong Limited.

Biographical Details of Directors and Senior Management

Mr. Chung Chin Keung, aged 45

Independent Non-executive Director

Mr. Chung joined the Group in February 2008. Mr. Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. Mr. Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants, a fellow member of The Institute of Financial Consultants and an associate member of The Institute of Chartered Accountants in England and Wales. He has more than 20 years of experience in finance, accounting and management. Mr. Chung is currently the financial controller and company secretary of China Financial Services Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited.

Mr. Wang Xiao Bing, aged 45

Independent Non-executive Director

Mr. Wang joined the Group in March 2012. Mr. Wang held a bachelor degree in law from China University of Political Science and Law. He used to work for several famous corporations and law office in China. He has over 11 years of experience in corporation law counselor. Mr. Wang has the lawyer's license of China and he is a member of Shenzhen lawyer association. Currently, Mr. Wang is a lawyer and one of the partners of Guangdong C&B Law Office, which is a new style and professional law office.

Senior management

Mr. Wong Chun Sing, aged 42

Financial Controller and Company Secretary

Mr. Wong joined the Group in April 2008. Mr. Wong holds a master degree in business administration. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has over 19 years of management experience in the accounting and finance sector and he had worked for an international accounting firm, listed companies and securities and finance companies in Hong Kong.

The directors herein present their report and the audited financial statements for the year ended 31 December 2012.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in Note 20 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by business and geographical segment is set out in Note 7 to the financial statements.

Results and appropriations

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 34 to 112.

The Board does not recommend the payment of any dividend.

Share capital

Details of the movements in share capital of the Company during the year are set out in Note 29 to the financial statements.

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 31 to the financial statements, respectively.

Distributable reserves

As at 31 December 2012, the Company had reserves available for distribution amounted to approximately HK$200,873,000 as calculated according to the laws of the Cayman Islands (2011: approximately HK$270,648,000).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 17 to the financial statements.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of association (the "Articles of Association") and there is no restriction against such rights under the laws of the Cayman Islands, which will oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 113.

Purchase, sale or redemption of securities

The Company had not redeemed any of its ordinary shares during the year ended 31 December 2012. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's ordinary shares during the year ended 31 December 2012.

Directors

The directors of the Company during the year and up to the date of this annual report were as follows:

Executive Directors

Ms. Ma Zheng
Mr. Wong Pui Yiu
Mr. Liu Weichang (re-designated from Independent Non-Executive Director on 1 March 2012 and resigned on 31 December 2012)

Independent Non-Executive Directors

Mr. Wan Tze Fan Terence
Mr. Chung Chin Keung
Mr. Wang Xiao Bing (appointed on 1 March 2012)
Mr. Liu Weichang (re-designated to Executive Director on 1 March 2012)

In accordance with article 87(1) of the Articles of Association, Ms. Ma Zheng and Mr. Chung Chin Keung, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Pursuant to the code provision as set out in paragraph A.4.3 of Appendix 15 of the GEM Listing Rules, any further appointment of independent non-executive director serving more than 9 years should be subject to a separate resolution to be approved by the shareholders of the Company. Mr. Wan Tze Fan Terence is an independent non-executive Director serving the Company for more than 9 years, separate resolution will be proposed for his re-election at the forthcoming annual general meeting. The Board considers that Mr. Wan Tze Fan Terence continues to be independent as he has satisfied all the criteria for independence set out in Rule 5.09 of the GEM Listing Rules.

All other remaining directors will continue in office.

All directors are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Articles of Association and code provision as set out in paragraph A.4.3 of Appendix 15 of the GEM Listing Rules.

Mr. Wan Tze Fan Terence is an independent non-executive director and was appointed without a specific term.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 10 and 11.

Directors' service contracts

Ms. Ma Zheng and Mr. Wong Pui Yiu, both executive directors, have renewed their service contracts with the Company for a term of two years commenced on 1 January 2012 and 1 February 2012 respectively. They are subject to termination by either party giving not less than three months' written notice. These two service contracts are exempt from the shareholders' approval requirement under Rule 17.90 of the GEM Listing Rules of the Stock Exchange.

Independence of independent non-executive directors

Each of the independent non-executive Directors has confirmed his independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors to be independent.

Directors' interests

No contract of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

As at 31 December 2012, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

The approximate percentage of interest set out below is based on 2,414,404,920 ordinary shares in issue as at 31 December 2012.

Long position in the ordinary shares of HK$0.0125 each in the Company as at 31 December 2012:

	Number of ordinary shares held		
Name of Director	**Type of interests**	**Number of ordinary shares**	**Approximate percentage of interests**
Ms. Ma Zheng	Beneficial	1,218,375,814	50.46%

Save as disclosed above, as at 31 December 2012, none of the directors and chief executive of the Company had any other interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations, within the meaning of Part XV of the SFO required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Share option

On 28 November 2001, a share option scheme (the "Scheme") was approved by the Company. The Scheme is valid and effective for a period of ten years commencing on the date on which it was adopted. The Scheme expired on 27 November 2011.

A new share option scheme (the "New Share Option Scheme") was adopted by the shareholders of the Company on 8 May 2012. The purpose of the New Share Option Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group's operations. Under the terms of the New Share Option Scheme, the Board may, at its discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The total number of shares which may fall to be issued upon exercise of all of the outstanding options granted and yet to be exercised under the New Share Option Scheme and other schemes of the Company must not exceed 30% of the shares in issue from time to time. The New Share Option Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional.

The New Share Option Scheme was adopted by the shareholders of the Company at the annual general meeting of the Company held on 8 May 2012. The definition of eligible person in the New Share Option Scheme include any suppliers, consultants, agents, advisors and distributors who, in the sole discretion of the Board, have contributed or may contribute to the Group.

The total number of shares in respect of which options may be granted under the New Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of approval of the New Share Option Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Any grant of options to a connected person (including but not limited to a Director, chief executive or substantial shareholder) or its associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). Where options are proposed to be granted to a connected person who is also a substantial shareholder or an independent non-executive Director or their respective associates and if such grant would result in the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant to such person representing in aggregate over 0.1% of the total issued Shares and having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million, then the proposed grant must be subject to the approval of shareholders of the Company taken on a poll in a general meeting. All connected persons of the Company must abstain from voting at such general meeting.

The exercise price for shares under the New Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a Business Day, (ii) the average of the closing prices of the Shares as stated in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the date of grant; and (iii) the nominal value of the Share on the date of grant. Any options granted under the New Share Option Scheme shall end in any event not later than ten years from the Commencement Date (as defined in the New Share Option Scheme). A nominal value of HK$1.00 is payable on acceptance of each grant of options.

No share options were granted by the Company and no share options were exercised or lapsed during the year.

Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2012, the Company had been notified that the following substantial shareholders having the following interests and short positions, being 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, in the Company. These interests are shown in addition to those disclosed above in respect of the directors and chief executives:

The approximate percentage of interest set out below is based on 2,414,404,920 ordinary shares in issue as at 31 December 2012.

Long position in the underlying shares or debentures of the Company as at 31 December 2012:

Name	Type of interests	Description of derivatives	Number of underlying shares can be converted	Approximate percentage of interests
Lehman Brothers (in liquidation)	Beneficial	Convertible Bonds in the principal amount of HK$246,250,000	Nil (Note)	N/A

Note: The conversion rights attached to the Convertible Bonds have expired after the original maturity date (i.e. 31 October 2010).

Save as disclosed above, as at 31 December 2012, the directors are not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who had an interest, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or any other substantial shareholders whose interests or short position were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' rights to acquire shares

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 64% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 22%.

Purchases from the Group's largest supplier accounted for approximately 33% of the total purchases for the year and the five largest suppliers accounted for approximately 80% of the Group's total purchases for the year.

None of the Company's directors or their respective associates (as defined in the GEM Listing Rules) or the existing shareholders, which, to the knowledge of the directors of the Company, holding more than 5% of the Company's issued share capital, had any interests in the Group's five largest customers or suppliers at any time during 2012.

Corporate governance

A report on the principal corporate governance practice adopted by the Company is set out on pages 22 to 31 of this annual report.

Audit committee

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules. The primary role and function of the audit committee, among other things, are to (i) review the financial controls, internal controls and risk management systems of the Group; (ii) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; and (iii) review the financial statements and the quarterly, interim and annual reports of the Group. During the year under review, the Audit Committee comprised three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing who are the independent non-executive directors of the Company. During the year under review, the Audit Committee held four meetings and performed duties including reviewing the Group's quarterly, interim and annual reports and announcements. After reviewing the Group's financial statements for the year ended 31 December 2012, the Audit Committee is of the opinion that the financial statements of the Company and the Group for the year ended 31 December 2012 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

Remuneration committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 1 June 2005. The primary role and function of the Remuneration Committee is to consider and recommend to the Board on the Group's remuneration policy and structure for all remuneration of executive directors and senior management and to review and determine the remuneration packages of the executive directors and senior management. During the year under review, the Remuneration Committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing who are the independent non-executive directors of the Company.

Nomination committee

The nomination committee of the Company (the "Nomination Committee") was established on 22 March 2012. The primary role and function of the Nomination Committee, among other things, are to (i) review the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) assess the independence of the independent non-executive Directors; and (iii) make recommendations to the Board on appointment and re-appointment of Directors. The Nomination Committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing who are the independent non-executive directors of the Company.

Connected and related party transactions

Details of the related party transactions during the year are included in Note 35 to the financial statements. The directors of the Company are of the opinion that the related party transactions were conducted on normal commercial terms and in the ordinary course of business and did not require reporting pursuant to Chapter 20 of the GEM Listing Rules.

Competition and conflict of interests

During the year under review, none of the Directors, significant shareholders, substantial shareholders and any of their respective associates had been engaged in any business that competed or might compete directly or indirectly, with the business of the Group, or had or might have any other conflicts of interest with the Group.

Sufficiency of public float

The Company had maintained sufficient public float throughout the year ended 31 December 2012.

Contingent liabilities

As at 31 December 2012, the directors of the Company were not aware of any material contingent liabilities.

Events after the reporting date

Details of events after the reporting date are set out in Note 39 to the financial statements.

Auditors

The financial statements have been audited by BDO Limited who will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as the auditors of the Company.

On behalf of the Board

Ma Zheng
Chairman

Hong Kong, 21 March 2013

(A) Corporate governance practices

The Company has applied the principles and complied with all the code provisions set out in the Code on Corporate Governance Practices for the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code for the period from 1 April 2012 to 31 December 2012 (the "Code") contained in Appendix 15 of the Rules (the "GEM Listing Rules") Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), with the exception of two deviations as set out under section (D) and (F) below. The application of the relevant principles and the reasons for the abovementioned deviations are contained in this report.

The Company strives to attain and maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The Company's corporate governance principles emphasise the need to have a quality Board, effective internal control and accountability to shareholders.

(B) Directors' securities transactions

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in the Rules 5.48 to 5.67 of the GEM Listing Rules. All Directors confirmed they had complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors throughout the year.

(C) Board of directors

The Company is governed by a Board of Directors, which has the responsibility for leading and controlling the Company. These directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. More specifically, the Board formulates strategy, monitors its financial performance and maintains effective oversight over management. The Board delegates daily operations and administration of the Company to management.

The Board includes (up to the approval date of this financial statements) the Chairman, one Executive Director, and three independent non-executive Directors, and their biographical details have been set out in the "Biographical Details of Directors and Senior Management" section.

Board Meetings

The Company Secretary is responsible to the Board for providing with Board papers and related materials, for ensuring that all Board procedures and all applicable laws, rules and regulations are followed, and for reporting to the Chairman and/or the chief executive on governance matters. All Directors have unrestricted access to the advice and services of the Company Secretary. The Company Secretary also keeps minutes of all meetings which are available for inspection at any reasonable time on reasonable notice by any Director.

In case where a conflict of interest may arise involving a substantial shareholder or a director, such matter will be discussed through an actual meeting and will not be dealt with by written resolutions. Independent non-executive directors with no conflict of interest will be present at meetings dealing with such conflict issues. The board committees, including the audit committee, the remuneration committee and the nomination committee, have all adopted the applicable practices and procedures used in board meetings for all committee meetings. If considered to be necessary and appropriate by the directors, they may retain independent professional advisors at the Group's expense.

The Board meets regularly and held 20 Board meetings in 2012. At least 14 days notice of the regular Board meetings were given to all Directors, who were all given an opportunity to include matters in the agenda for discussion. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each regular board meeting or committee meeting to keep Directors apprised of the latest development and financial position of the Company and to enable them to make informed decisions. The Directors attended the meetings in persons or through other means of electronic communication in accordance with the Articles of Association. During regular Board meetings, the Directors discussed and formulated the overall strategies of the Group, reviewed and approved the annual, interim and quarterly results, as well as discussed and decided on other significant matters of the Group. All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board. Individual attendance records of each Director at the respective Board and committee meetings are set out in the section of "Directors' Attendance Record at Meetings" of this report.

Continuous Professional Development

Pursuant to code provision A.6.5 of the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending seminars or programmes or studying relevant materials on the topics related to corporate governance and regulations.

The individual training record of each Director received for the year ended 31 December 2012 is summarized below:

Name of Directors	**Attending seminar(s) or programme(s)/ studying relevant materials in relation to the business or directors' duties**
	Yes/No
Executive Directors	
Ms. Ma Zheng *(Chairman)*	Yes
Mr. Wong Pui Yiu	Yes
Mr. Liu Weichang (re-designated from Independent Non-Executive Director on 1 March 2012 and resigned on 31 December 2012)	Yes
Independent non-executive Directors	
Mr. Wan Tze Fan Terence *(Committee Chairman)*	Yes
Mr. Chung Chin Keung	Yes
Mr. Wang Xiao Bing	Yes

All Directors also understand the importance of continuous professional development and are committed to participate in any suitable training or study relevant materials in order to develop and refresh their knowledge and skills.

During the year under review, there was no conflict of interest in any matters with the substantial shareholders and Directors of the Company. In addition, if the Board considers a director to be having a conflict of interest, that director will be required to abstain from voting.

(D) Chairman and chief executive

For the year 2012, we still did not have an officer with the title of "Chief Executive". The Code envisages that the management of the Board should rest with the Chairman, whereas the day-to-day management of the Company's business should rest with the Chief Executive. Ms. Ma Zheng, the Chairman, is also a director of the Company's production plant in Yichang City. This constitutes a deviation of code provision A.2.1 of the Code. The Board holds the view that this arrangement is appropriate for the Company but we do not compromise accountability and independent decision making for this since we have an audit committee, all members of which are independent non-executive directors, to help to ensure the accountability and independence of Ms. Ma Zheng.

(E) Appointment and re-election of directors

According to the Articles of Association, which provided that (a) every director, including those appointed for a specific term, should be subjected to retirement by rotation at least once every three years; and (b) all directors appointed to fill casual vacancy should be subject to election by shareholders at the next following general meeting of the Company after their appointment.

(F) Independent non-executive directors

During the year under review, the Company had three independent non-executive Directors, they were Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing. Except for Mr. Chung Chin Keung and Mr. Wang Xiao Bing who are appointed for a specific term of two years, Mr. Wan Tze Fan Terence is not appointed for any specific terms. This constitutes a deviation of code provision A.4.1 of the Code which requires that non-executive directors should be appointed for specific terms. However, he is subject to retirement by rotation at least once every three years in accordance with the Articles of Association. The Board has discussed and concluded that the current practice of appointing non-executive directors without specific terms but otherwise subject to retirement and re-election is fair and reasonable, and therefore will not change the terms of appointment of Mr. Wan Tze Fan Terence.

Pursuant to the code provision A.4.3 of the Code, any further appointment of independent non-executive director serving more than 9 years should be subject to a separate resolution to be approved by the shareholders of the Company. Mr. Wan Tze Fan Terence is an independent non-executive Director serving the Company for more than 9 years, separate resolution will be proposed for his re-election at the forthcoming annual general meeting. The Board considers that Mr. Wan Tze Fan Terence continues to be independent as he has satisfied all the criteria for independence set out in Rule 5.09 of the GEM Listing Rules.

(G) Responsibilities of directors

The Board will make sure every newly appointed director will receive the necessary information for his proper understanding of the operations and business of the Group and that he will be fully aware of his responsibilities under statute and common law, the GEM Listing Rules and other regulatory requirements and governance policies of the Company. The Directors will continually update themselves with legal and regulatory development, business and market changes and the development of the Company so as to facilitate the discharge of their responsibilities.

(H) Remuneration committee

The Board has established a remuneration committee with specific written terms of reference in compliance with the code provision B.1.2 of the Code. These terms of reference were already reviewed by all Directors before they were adopted. During the year under review, the remuneration committee comprised only of the independent non-executive Directors, namely Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing. Mr. Wan Tze Fan Terence is the chairman of the remuneration committee. The remuneration committee had held two meetings during 2012 and were attended by Mr. Wan Tze Fan Terence and Mr. Chung Chin Keung. Mr. Liu Weichang (On 1 March 2012, Mr. Liu Weichang was re-designated from independent non-executive Director to executive Director and ceased to be a member of each of the audit committee and remuneration committee. On 31 December 2012, he resigned as executive Director) had attended one of these meetings.

The role and function of the remuneration committee include determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration. During the year under review, the remuneration committee adopted the approach under the code provision B.1.2(c)(ii) of the Code to made recommendations to the Board on the remuneration package of executive directors and senior management.

(I) Nomination committee

The Company established the nomination committee on 22 March 2012 with written terms of reference in compliance with the code provision A.5.2 of the Code. The primary role and function of the nomination committee, among other things, are to (i) review the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes to Board to complement the Company's corporate strategy; (ii) assess the independence of independent non-executive Directors; and (iii) make recommendations to the Board on appointment and re-appointment of Directors. The nomination committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing, all of them are independent non-executive Directors. Mr. Wan Tze Fan Terence is the Chairman of the nomination committee.

The nomination committee had held one meeting during the year under review. The nomination committee reviewed the structure, size and composition of the Board and assessed the independence of independent non-executive Directors.

(J) Audit committee

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and code provision C.3.3 of the Code. The primary role and function of the audit committee, among other things, are to (i) review the financial controls, internal controls and risk management systems of the Group; (ii) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; and (iii) review the financial statements and the quarterly, interim and annual reports of the Group. During the year under review, the audit committee comprised three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing, all of them are independent non-executive Directors. Mr. Wan Tze Fan Terence is the chairman of the audit committee.

The audit committee had held four meetings during the year under review. The audit committee has reviewed and provided supervision over the financial reporting system and internal control procedures of the Group and to review the Company's annual report and accounts, interim report and quarterly reports and to provide advices and comments thereon to the Board that such reports were prepared in accordance with the applicable accounting standards and requirements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the annual financial reports to the Board for approval.

The audit committee is satisfied with their review of the audit fee and audit process and has recommended the Board to re-appoint the existing auditors at the forthcoming annual general meeting.

The Group's 2012 annual report, 2012 quarterly reports and 2012 interim report had been reviewed by the audit committee.

Directors' Attendance Record at Meetings

Details of the attendance of the Directors at the meetings of the Board and its respective committees during the year ended 31 December 2012 are as follows:

Name of Directors	Board Meeting Attended/ Eligible to attend	Audit Committee Attended/ Eligible to attend	Remuneration Committee Meeting Attended/ Eligible to attend	Nomination Committee Meeting Attended/ Eligible to attend	General Meeting Attended/ Eligible to attend
Number of meetings held during the financial year	20	4	2	1	1
Executive Directors					
Ms. Ma Zheng *(Chairman)*	20/20	4/4	0/2	0/1	1/1
Mr. Wong Pui Yiu	20/20	4/4	0/2	0/1	1/1
Mr. Liu Weichang (resigned on 31 December 2012)	10/20	2/4	1/2	0/1	1/1
Independent non-executive Directors					
Mr. Wan Tze Fan Terence *(Committee Chairman)*	13/20	4/4	2/2	1/1	1/1
Mr. Chung Chin Keung	13/20	4/4	2/2	1/1	1/1
Mr. Wang Xiao Bing	9/20	2/4	0/2	0/1	1/1

Directors' and Auditors' Responsibilities in respect of the Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2012.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

The management provides such explanations and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Group put to the Board for approval.

The responsibilities of the external auditors of the Company for reporting responsibilities on the financial statements are set out in the independent auditors' report on pages 32 and 33.

(K) Auditors' remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions can lead to any potential material adverse effect on the Company. During the year under review, an amount of approximately HK$780,000 (2011: approximately HK$720,000) was charged to the Group's statement of comprehensive income for the year ended 31 December 2012 for audit services provided by to the external auditors. No non-audit service was performed by auditors during the year under review.

(L) Internal control

The Directors of the Company know that they have the overall responsibility for the Company's internal control, financial control and risk management and shall monitor its effectiveness from time to time. Therefore, the Company has already adopted a well-designed internal control system to safeguard the assets of the Company and the shareholders' investments and to ensure the reliability of financial reporting as well as compliance with the relevant requirement of GEM Listing Rules. In view of the immaterial change of the internal control system in 2012, the audit committee has assigned the finance department of the Company to review designated parts of the system and a report will be presented to the audit committee in due course. The Board considers that the existing internal control system of the Group basically covers the current operating conditions of the Group. However, with the sustained development of the Group's business and continual increase in management standard, the internal control system of the Group shall need continuous revision and improvement.

(M) Company secretary

Mr. Wong Chun Sing is the Company Secretary of the Company. As an employee of the Company, he is responsible to the Board for ensuring the board procedures are followed and that the Board is briefed on legislative, regulatory and corporate governance development. During the year under review, Mr. Wong confirmed that he undertook not less than 15 hours of relevant professional training. His biography is set out in the Biographical Details of Directors and Senior Management of this annual report.

(N) Communication with shareholders

Communication with shareholders is given a high priority. The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual, interim and quarterly reports, announcements and circulars made through websites of the Company and of the Stock Exchange.

The Board also maintains an on-going dialogue with shareholders and make use of general meetings to communicate with shareholders. The Company encourages all shareholders to attend general meetings which provides a useful forum for shareholders to exchange views with the Board. The Chairman of the Board and members of relevant committees and senior management of the Company are available to answer the shareholders' questions in all general meetings.

(O) Investor relations

The Company disclosed all necessary information to shareholders in compliance with GEM Listing Rules. The Company will also reply to enquires from shareholders on request.

During the year under review, there was no significant change in the Articles of Association.

(P) Shareholders' right

As one of the measures to safeguard shareholders' interest and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the GEM website and the Company's website after the relevant shareholders' meeting.

(Q) Right to convene extraordinary general meeting

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "Requisitionists") (as the case may be) pursuant to Article 58 of the Articles of Association. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such Article for convening an extraordinary general meeting. Shareholders may put forward proposals at general meeting of the Company by sending the same to the Company's head office and principal place of business in Hong Kong.

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the Company's head office and principal place of business in Hong Kong.

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF CHINA PRIMARY RESOURCES HOLDINGS LIMITED
(中國基礎資源控股有限公司)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Primary Resources Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 34 to 112, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

Independent Auditors' 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 the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Shiu Hong NG
Practising Certificate Number: P03752

Hong Kong, 21 March 2013

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	6	**39,192**	89,699
Other income and gains and losses	8	**6,494**	198
Cost of sales		**(44,136)**	(90,405)
Staff costs, including directors' remuneration	15	**(9,205)**	(7,584)
Depreciation		**(4,743)**	(5,026)
Amortisation of land use rights	18	**(764)**	(757)
Impairment loss on property, plant and equipment	17	**(31,975)**	–
Impairment loss on trade receivables	23	**(23,060)**	(3,293)
Reversal of provision/(provision) for impairment loss on prepayments	24	**7,783**	(18,294)
Other operating expenses		**(15,777)**	(14,632)
Finance costs	9	**(45)**	(900)
Loss before income tax	10	**(76,236)**	(50,994)
Income tax	11	**(314)**	–
Loss for the year		**(76,550)**	(50,994)
Other comprehensive income:			
Exchange differences on translation of foreign operations		**3,293**	17,159
Change in fair value of available-for-sale investments		**784**	–
Other comprehensive income for the year		**4,077**	17,159
Total comprehensive income for the year		**(72,473)**	(33,835)
Loss attributable to:			
Owners of the Company		**(76,550)**	(50,994)
Non-controlling interests		**–**	–
		(76,550)	(50,994)
Total comprehensive income attributable to:			
Owners of the Company		**(72,473)**	(33,835)
Non-controlling interests		**–**	–
		(72,473)	(33,835)
Basic and diluted loss per share (HK$)	14	**(0.032)**	(0.021)

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	17	**123,250**	158,994
Land use rights	18	**31,575**	32,028
Available-for-sale investments	21	**36,398**	3,896
Total non-current assets		**191,223**	194,918
Current assets			
Inventories	22	**35,147**	23,281
Trade receivables	23	**30,891**	74,433
Other receivables, deposits and prepayments	24	**108,264**	124,589
Investments held for trading	25	**1,941**	–
Tax recoverable		**–**	298
Cash and cash equivalents	26	**7,111**	31,539
		183,354	254,140
Assets classified as held for sale	19	**207,612**	207,612
Total current assets		**390,966**	461,752
Total assets		**582,189**	656,670
Current liabilities			
Trade payables	27	**9,770**	13,022
Other payables and accruals		**11,951**	11,692
Customers' deposit		**1,004**	–
Convertible bonds	28	**246,250**	246,250
		268,975	270,964
Liabilities associated with assets classified as held for sale	19	**29,510**	29,510
Total current liabilities		**298,485**	300,474
Net current assets		**92,481**	161,278
Total assets less current liabilities		**283,704**	356,196

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Deferred tax liabilities		**–**	19
Total non-current liabilities		**–**	19
Total liabilities		**298,485**	300,493
NET ASSETS		**283,704**	356,177
Equity			
Share capital	29	**30,180**	30,180
Reserves		**219,619**	292,092
Equity attributable to owners of the Company		**249,799**	322,272
Non-controlling interests		**33,905**	33,905
TOTAL EQUITY		**283,704**	356,177

These financial statements were approved and authorised for issue by the board of directors on 21 March 2013.

Ma Zheng
Director

Wong Pui Yiu
Director

Statement of Financial Position

AS AT 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Interests in subsidiaries	20	**574,278**	643,976
Available-for-sale investments	21	**4,680**	3,896
Total non-current assets		**578,958**	647,872
Current assets			
Other receivables, deposits and prepayments	24	**85,209**	85,221
Cash and cash equivalents		**130**	159
Total current assets		**85,339**	85,380
Total assets		**664,297**	733,252
Current liabilities			
Other payables and accruals		**10,532**	10,459
Amounts due to subsidiaries	20	**157,756**	157,793
Convertible bonds	28	**246,250**	246,250
Total current liabilities		**414,538**	414,502
Net current liabilities		**(329,199)**	(329,122)
NET ASSETS		**249,759**	318,750
Equity			
Share capital	29	**30,180**	30,180
Reserves	31	**219,579**	288,570
TOTAL EQUITY		**249,759**	318,750

These financial statements were approved and authorised for issue by the board of directors on 21 March 2013.

Ma Zheng
Director

Wong Pui Yiu
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2012

	Equity attributable to owners of the Company									
	Share capital HK$'000	Share premium account HK$'000 (Note a)	Convertible bonds reserve HK$'000	Employee compen-sation reserve HK$'000 (Note 30)	Statutory surplus reserve HK$'000 (Note b)	Available-for-sale financial assets reserve HK$'000 (Note c)	Exchange translation reserve HK$'000 (Note d)	Accumulated losses HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2011	**30,180**	**443,564**	**17,922**	**33,618**	**5,110**	**–**	**53,127**	**(227,414)**	**33,905**	**390,012**
Loss for the year	–	–	–	–	–	–	–	(50,994)	–	(50,994)
Other comprehensive income	–	–	–	–	–	–	17,159	–	–	17,159
Total comprehensive income	–	–	–	–	–	–	17,159	(50,994)	–	(33,835)
Lapse of share options	–	–	–	(33,618)	–	–	–	33,618	–	–
Balance at 31 December 2011 and at 1 January 2012	**30,180**	**443,564**	**17,922**	**–**	**5,110**	**–**	**70,286**	**(244,790)**	**33,905**	**356,177**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(76,550)**	**–**	**(76,550)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**784**	**3,293**	**–**	**–**	**4,077**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**784**	**3,293**	**(76,550)**	**–**	**(72,473)**
Balance at 31 December 2012	**30,180**	**443,564**	**17,922**	**–**	**5,110**	**784**	**73,579**	**(321,340)**	**33,905**	**283,704**

Notes:

(a) The share premium account of the Group includes: (i) the premium arising from the issue of shares of the Company at a premium less share issue expenses; and (ii) the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the reorganisation scheme in preparation for the public listing of the Company's shares on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") over the nominal value of the shares of the Company issued in exchange therefor.

(b) Subsidiaries of the Company established in the People's Republic of China (the "PRC") are required to transfer 10% of their profit after income tax calculated in accordance with the PRC accounting regulations to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the recommendation of the directors of subsidiaries. Such reserve may be used to reduce any loss incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries. No appropriation has been made by the Company's PRC subsidiaries during the years ended 31 December 2012 and 2011 as these subsidiaries have incurred losses for both years.

(c) Available-for-sale financial assets reserve comprises the cumulative net change in the fair value of available-for-sale investments held at the end of reporting period and is dealt with in accordance with the accounting policy in Note 4(g)(ii).

(d) Exchange translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. This reserve is dealt with in accordance with the accounting policy in Note 4(m).

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000
Operating activities			
Loss before income tax		**(76,236)**	(50,994)
Adjustments for:			
Depreciation	17	**13,266**	13,291
Amortisation of land use rights	18	**764**	757
Bank interest income	8	**(49)**	(82)
Investment income from unlisted investment funds	8	**(165)**	–
Finance costs	9	**45**	900
Fair value loss on investments held for trading	8	**70**	–
Loss/(gain) on disposal of property, plant and equipment	8	**9**	(83)
Write off of property, plant and equipment	8	**165**	–
Impairment loss on property, plant and equipment	17	**31,975**	–
Write down of inventories	22	**3,126**	–
Impairment loss on trade receivables	23	**23,060**	3,293
(Reversal of provision)/provision for impairment loss on prepayments	24	**(7,783)**	18,294
Operating loss before working capital changes		**(11,753)**	(14,624)
(Increase)/decrease in inventories		**(14,992)**	1,185
Decrease/(increase) in trade receivables		**20,482**	(24,209)
Decrease in other receivables, deposits and prepayments		**24,115**	93,039
Increase in investments held for trading		**(2,011)**	–
(Decrease)/increase in trade payables		**(1,869)**	7,998
Increase/(decrease) in other payables and accruals		**259**	(1,771)
Increase in customers' deposit		**1,004**	–
Effect of foreign exchange differences		**1,138**	10,222
Cash generated from operations		**16,373**	71,840
Income tax paid		**(32)**	(18)
Bank interest received		**49**	82
Net cash generated from operating activities		**16,390**	71,904

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 HK$'000	2011 HK$'000
Investing activities		
Purchases of property, plant and equipment	**(9,533)**	(1,952)
Purchases of available-for-sale investments	**(31,718)**	(3,896)
Proceeds from disposal of property, plant and equipment	**17**	271
Investment income received	**165**	–
Net cash used in investing activities	**(41,069)**	(5,577)
Financing activities		
Proceeds from other borrowing	**11,008**	–
Repayment of other borrowing	**(11,008)**	–
Repayment of bank borrowing	**–**	(81,307)
Interest paid	**(45)**	(900)
Net cash used in financing activities	**(45)**	(82,207)
Net decrease in cash and cash equivalents	**(24,724)**	(15,880)
Cash and cash equivalents at beginning of year	**31,540**	45,931
Effect of foreign exchange rate changes	**296**	1,489
Cash and cash equivalents at end of year	**7,112**	31,540
Analysis of the balances of cash and cash equivalents		
Cash at banks and in hand	**7,112**	31,540

1. ORGANISATION AND OPERATIONS

The Company is a limited liability company incorporated in the Cayman Islands, as an exempted company under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is located at Suite 1415, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong. The Company's shares are listed on the GEM of the Stock Exchange.

The principal activity of the Company is investment holding. The Group engages in the manufacture and sale of Polyethylene pipes ("PE pipes") and operates primarily in the PRC market. The activities of the subsidiaries are set out in Note 20 to the financial statements.

As disclosed in Note 19, the Group had ceased its mining activities in the independent sovereign state of Mongolia since November 2010 and is in the final stage of completing the disposal of its mining business to the holder of the Company's Convertible Bonds.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of amendments to HKFRSs – first effective on 1 January 2012

In the current year, the Group has adopted the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for the current accounting period.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets

Except as explained below, the adoption of these amendments has no significant impact on the Group's financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of amendments to HKFRSs – first effective on 1 January 2012 *(Continued)*

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 expand the disclosure requirements for transfer transactions of financial assets, in particular where the reporting entity has continuing involvement in financial assets that it has derecognised. The newly required disclosures allow users of financial statements to better understand the risks to which the reporting entity remains exposed. Such information is also relevant in assessing the amount, timing and uncertainty of the entity's future cash flows. The Group did not have any significant transfers of financial assets in the current and previous years which require disclosure in the current accounting period under the amendments.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group:

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 27 (2011)	Separate Financial Statements[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities[3]

2. *ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

[1] Effective for annual periods beginning on or after 1 July 2012

[2] Effective for annual periods beginning on or after 1 January 2013

[3] Effective for annual periods beginning on or after 1 January 2014

[4] Effective for annual periods beginning on or after 1 January 2015

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

The improvements made amendments to the following standards:

(i) HKAS 1-Presentation of Financial Statements

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

2. *ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle (Continued)

(ii) HKAS 16-Property, Plant and Equipment

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

(iii) HKAS 32-Financial Instruments: Presentation

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

(iv) HKAS 34-Interim Financial Reporting

The amendments clarify that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

2. *ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

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

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities (Continued)

The amendments provide an exception to the consolidation requirements in HKFRS 10 "Consolidated Financial Statements" and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implantation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs in the period of their initial application.

3. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

3. BASIS OF PREPARATION (Continued)

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Business combination and basis of consolidation *(Continued)*

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Business combination and basis of consolidation *(Continued)*

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are included in the Company's statement of financial position at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy in Note 4(p). In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Property, plant and equipment *(Continued)*

Buildings	Over the lease terms
Leasehold improvements	Over the remaining term of the lease but not exceeding 4 years
Computer equipment	20% – 33%
Plant and machinery	10%
Furniture, fixtures and office equipment	20% – 33%
Motor vehicles	20%

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(d) Land use rights

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may have decreased:

– Property, plant and equipment;
– Land use rights; and
– Interests in subsidiaries

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, including an appropriate portion of overhead expenses, is assigned to inventories by the method most appropriate to the particular class of inventory, is calculated using weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

(g) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs that are directly attributable to the acquisition of the financial assets, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value. The Group's financial assets are subsequently accounted for as follows, depending on their classification:

(i) Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Available-for-sale investments

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised directly in equity.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(g) Financial assets *(Continued)*

(ii) Available-for-sale investments (Continued)

For available-for-sale equity investments that do not have quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

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

These assets 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.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

(iv) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(g) Financial assets *(Continued)*

(iv) Impairment of financial assets (Continued)

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty;

– default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which has been determined had no impairment loss been recognised in prior years.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Financial assets *(Continued)*

(iv) Impairment of financial assets (Continued)

– For available-for-sale equity investment, where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(g) Financial assets *(Continued)*

(vi) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(h) Financial liabilities and equity instrument issued by the Group

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(h) Financial liabilities and equity instrument issued by the Group *(Continued)*

(iii) Compound instruments

Convertible bonds that contain liability and equity components

The component parts of compound instruments, comprising convertible bonds issued by the Group, are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Issue costs were apportioned between the liability and equity components of the compound instruments based on their relative carrying amounts at the date of issue. The portion relating to the equity component was charged directly to equity.

In subsequent periods, the equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds – equity component until the embedded option is exercised in which case the balance stated in convertible bonds – equity component will be transferred to share premium. Where the option remains unexercised at the expiry dates, the balance stated in convertible bonds – equity component will be released to the retained profits. No gain or loss is recognised upon conversion or expiration of the option.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Financial liabilities and equity instrument issued by the Group *(Continued)*

(iv) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

(v) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(vi) 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 through the expected life of the financial liability, or where appropriate, a shorter period.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Operating leases

The Group as lessee

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, 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.

(k) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Income taxes

Income taxes for the year comprise current tax and deferred tax.

(i) *Current tax*

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

(ii) *Deferred tax*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Income taxes *(Continued)*

(ii) Deferred tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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 when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Income tax is recognised in profit or loss except when it relates to items recognised in other comprehensive income in which case the income tax is recognised in other comprehensive income.

(m) Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(m) Foreign currencies *(Continued)*

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchanges rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Exchange differences on non-monetary items carried at fair value in respect of which gains or losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, all assets and liabilities of the Group's entities denominated in foreign currencies are translated into HK$ at the applicable rates of exchange ruling at the end of reporting period while income and expenses items are translated at an average rate for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. The resulting translation differences are recognised in other comprehensive income and accumulated in the exchange translation reserve. Exchange differences recognised in profit or loss of group entities' individual financial statements on translation of long-term monetary items forming part of the Group's net investment in foreign operations are reclassified to other comprehensive income and accumulated in equity as exchange translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate at the end of reporting period. Exchange differences arising are recognised in the exchange translation reserve.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Employees' benefits

(i) Short term benefits

Salaries, annual bonuses, paid annual leaves and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

(ii) Pension obligations

Contributions to the Mandatory Provident Fund scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to profit or loss when incurred. The Group has no further payment obligations once the contribution has been made.

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

(o) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Share-based payments *(Continued)*

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

An option pricing model is used to measure the Group's liability at the end of each reporting period, taking into account the terms and conditions on which the bonus is awarded and the extent to which employees have rendered service. Movements in the liability (other than cash payments) are recognised in profit or loss.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

(p) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing cost capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Non-current assets held for sale and disposal group

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of were included in profit or loss up to the date of disposal.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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 the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(r) Related parties *(Continued)*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances and excludes value added tax or other sales related taxes.

(i) Revenue from sale of products is recognised when the Group has delivered the products to the customer and the customer has accepted the products and collectability of the related receivable is reasonably assured.

(ii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

(t) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Carrying value of non-current assets and impairment of assets

Non-current assets, including property, plant and equipment and land use rights, are carried at cost less accumulated depreciation and amortisation, where appropriate, and impairment losses. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. Details of the impairment in property, plant and equipment are set out in Note 17 to the financial statements. In addition, the Company also assessed the impairment on its investment costs in subsidiaries and amounts due from subsidiaries, details of which are set out in Note 20 to the financial statements.

(b) Impairment of available-for-sale investments

The directors review available-for-sale investments at the end of each reporting period to assess whether they are impaired. The Group records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the directors evaluate, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(c) Impairment of trade and other receivables

The Group's management determines impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of trade and other receivables at the end of each reporting period.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassesses these estimations at the end of each reporting period to ensure inventories are shown at the lower of cost and net realisable value.

(e) Income tax

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. In addition, the realisation of the future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and carry-forward income tax losses. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on earnings.

6. TURNOVER

Turnover, which is also revenue, represents the sales value of goods supplied to customers. An analysis of the Group's turnover is as follows:

	2012	2011
	HK$'000	HK$'000
Sale of PE pipes	**39,181**	62,005
Sale of composite materials	**11**	27,694
	39,192	89,699

7. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

– Manufacture and sale of PE pipes
– Sale of composite materials

Segment assets exclude cash and cash equivalents, assets classified as held for sale and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude convertible bonds, liabilities associated with assets classified as held for sale, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

There were no inter-segment sales or transfer during the year (2011: Nil). Central revenue and expenses are not allocated to the operating segments as they are not included in the calculation of segment loss which is used by the chief operating decision-makers for assessment of segment performance.

7. SEGMENT REPORTING (Continued)

(a) Business segments

For the year ended 31 December 2012

	Manufacture and sale of PE pipes HK$'000	Sale of composite materials HK$'000	Total HK$'000
Revenue from external customers	39,181	11	39,192
Reportable segment (loss)/profit	(73,958)	7,788	(66,170)
Reportable segment assets	225,088	12,084	237,172
Reportable segment liabilities	(11,649)	–	(11,649)
Other segment information:			
Interest income			49
Investment income from unlisted investment funds			165
Gain on disposal of investments held for trading			5,570
Fair value loss on investments held for trading			(70)
Finance costs			(45)
Depreciation	(12,746)	(1)	(12,747)
Unallocated depreciation			(519)
Total depreciation			(13,266)
Amortisation of land use rights	(764)	–	(764)
Impairment loss on property, plant and equipment	(31,975)	–	(31,975)
Write down of inventories	(3,126)	–	(3,126)
Impairment loss on trade receivables	(23,060)	–	(23,060)
Reversal of provision for impairment loss on prepayments	–	7,783	7,783
Loss on disposal of property, plant and equipment	(9)	–	(9)
Write off of property, plant and equipment	(11)	–	(11)
Unallocated write off of property, plant and equipment			(154)
Total write off of property, plant and equipment			(165)
Additions to non-current assets	4,214	–	4,214
Unallocated additions to non-current assets			5,319
Total additions to non-current assets			9,533

7. SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the year ended 31 December 2011

	Manufacture and sale of PE pipes HK$'000	Sale of composite materials HK$'000	Total HK$'000
Revenue from external customers	62,005	27,694	89,699
Reportable segment loss	(15,997)	(22,620)	(38,617)
Reportable segment assets	293,010	31,059	324,069
Reportable segment liabilities	(13,827)	–	(13,827)
Other segment information:			
Interest income			82
Finance costs			(900)
Depreciation	(11,265)	(1,348)	(12,613)
Unallocated depreciation			(678)
Total depreciation			(13,291)
Amortisation of land use rights	(757)	–	(757)
Impairment loss on trade receivables	(3,293)	–	(3,293)
Impairment loss on prepayments	–	(18,294)	(18,294)
Gain on disposal of property, plant and equipment	57	26	83
Additions to non-current assets	10,492	–	10,492
Unallocated additions to non-current assets			76
Total additions to non-current assets			10,568

7. SEGMENT REPORTING (Continued)

(b) Reconciliation of reportable segment loss, assets and liabilities

	2012	2011
	HK$'000	HK$'000
Loss before income tax		
Reportable segment loss	**(66,170)**	(38,617)
Unallocated other income and gains and losses	**6,514**	198
Corporate and other unallocated expenses	**(16,535)**	(11,675)
Finance costs	**(45)**	(900)
Consolidated loss before income tax	**(76,236)**	(50,994)

	2012	2011
	HK$'000	HK$'000
Assets		
Reportable segment assets	**237,172**	324,069
Assets classified as held for sale	**207,612**	207,612
Cash and cash equivalents	**7,111**	31,539
Unallocated corporate assets	**130,294**	93,152
Tax recoverable	**–**	298
Consolidated total assets	**582,189**	656,670

7. *SEGMENT REPORTING (Continued)*

(b) Reconciliation of reportable segment loss, assets and liabilities *(Continued)*

	2012	2011
	HK$'000	HK$'000
Liabilities		
Reportable segment liabilities	**(11,649)**	(13,827)
Liabilities associated with assets classified as held for sale	**(29,510)**	(29,510)
Convertible bonds	**(246,250)**	(246,250)
Deferred tax liabilities	**–**	(19)
Unallocated corporate liabilities	**(11,076)**	(10,887)
Consolidated total liabilities	**(298,485)**	(300,493)

(c) Geographic information

During the reporting period, the Group's operations and non-current assets other than financial instruments (specified non-current assets) are located in the PRC (2011: located in the PRC). The specified non-current assets information below is based on the location of assets.

Segment information of the Group by geographical locations by customer is presented as below:

	The PRC	
	2012	2011
	HK$'000	HK$'000
Revenue from external customers	**39,192**	89,699
Specified non-current assets	**154,825**	191,022

7. SEGMENT REPORTING (Continued)

(d) Information about major customers

For the year ended 31 December 2012, revenue from two customers in the manufacture and sale of PE pipes segment amounted to HK$8,544,000 and HK$7,701,000 respectively. Each of them had contributed to more than 10% of the Group's total revenue.

For the year ended 31 December 2011, revenue from one customer in the sale of composite materials segment amounted to HK$25,992,000, and revenues from two customers in the manufacture and sale of PE pipes segment amounted to HK$29,965,000 and HK$13,387,000 respectively. Each of them had contributed to more than 10% of the Group's total revenue.

8. OTHER INCOME AND GAINS AND LOSSES

	2012 HK$'000	2011 HK$'000
Bank interest income	49	82
Sundry income	954	33
Gain on disposal of investments held for trading	5,570	–
Investment income from unlisted investment funds	165	–
Fair value loss on investments held for trading	(70)	–
(Loss)/gain on disposal of property, plant and equipment	(9)	83
Write off of property, plant and equipment	(165)	–
	6,494	198

9. FINANCE COSTS

	2012 **HK$'000**	2011 HK$'000
Interest expenses on borrowing wholly repayable within five years	**–**	900
Interest expenses on other borrowing	**45**	–
	45	900

10. LOSS BEFORE INCOME TAX

	2012 **HK$'000**	2011 HK$'000
Loss before income tax is arrived after charging:		
Cost of inventories sold	**41,010**	90,405
Write down of inventories (Note 22)	**3,126**	–
Auditors' remuneration	**780**	720
Minimum lease payments under operating lease charges in respect of land and buildings	**942**	1,339
Depreciation (Note)	**13,266**	13,291

Note: Depreciation charge included an amount of HK$8,523,000 (2011: HK$8,265,000) recognised as cost of inventories sold for the year.

11. INCOME TAX

Income tax in the consolidated statement of comprehensive income for the year ended 31 December 2012 represents under provision of income tax in respect of prior years.

No provision has been made for Hong Kong profits tax as the Group has no assessable profit arising from Hong Kong during the current and prior years. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

In accordance with the PRC Enterprise Income Tax Law approved by the National People's Congress on 16 March 2007 and became effective from 1 January 2008, the Group's subsidiaries in the PRC are subject to enterprise income tax ("EIT") at the unified EIT rate of 25%. No provision for EIT has been made as the subsidiary sustained a loss during the current and prior years.

Income tax for the year can be reconciled to accounting loss, at applicable tax rates:

	2012 **HK$'000**	2011 HK$'000
Loss before income tax	**(76,236)**	(50,994)
Income tax credit calculated at the statutory PRC EIT tax rate of 25% (2011: 25%)	**(19,059)**	(12,749)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**339**	720
Tax effect of expenses not deductible for taxation purposes	**15,809**	6,888
Tax effect of non-taxable items	**(2,354)**	(2)
Tax effect of temporary differences not recognised	**(118)**	(6)
Tax effect on unused tax losses not recognised	**5,468**	5,149
Under provision in respect of prior years	**314**	–
Others	**(85)**	–
Income tax for the year	**314**	–

11. INCOME TAX (Continued)

The Group had tax losses arising in Hong Kong of HK$1,733,000 (2011: HK$1,733,000) and the PRC of HK$66,532,000 (2011: HK$50,349,000) which are available for offset against future taxable profits of the companies in which the losses arose for an indefinite period and a period of five years respectively. Deferred tax assets have not been recognised in respect of these losses as they have arisen in group companies that have been loss-making for some years.

12. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2012 includes a loss of HK$5,375,000 (2011: HK$4,644,000) which has been dealt with in the financial statements of the Company.

13. DIVIDEND

The board of directors does not recommend the payment of any dividend for the year ended 31 December 2012 (2011: HK$Nil).

14. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2012	2011
	HK$'000	HK$'000
Loss:		
Loss for the purposes of basic and diluted loss per share	**76,550**	50,994

14. LOSS PER SHARE (Continued)

	2012 '000	2011 '000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**2,414,405**	2,414,405

The number of shares used is the same as those detailed above for both basic and diluted loss per share.

Diluted loss per share for the years ended 31 December 2012 and 2011 are the same as the basic loss per share as there were no dilutive potential ordinary shares in issue for both years.

15. STAFF COSTS, INCLUDING DIRECTORS' REMUNERATION

	2012 HK$'000	2011 HK$'000
Salaries and allowances	**8,581**	7,075
Retirement benefit scheme contributions	**624**	509
	9,205	7,584

Staff salaries of HK$1,659,000 (2011: HK$1,217,000) were included in cost of inventories sold for the year.

16. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and equity-settled share option benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2012				
Executive directors:				
Ms. Ma Zheng	–	1,199	18	1,217
Mr. Wong Pui Yiu	–	721	14	735
Mr. Liu Weichang (Note (i))	–	514	13	527
	–	2,434	45	2,479
Independent non-executive directors:				
Mr. Wan Tze Fan Terence	182	–	–	182
Mr. Chung Chin Keung	182	–	–	182
Mr. Wang Xiao Bing	156	–	–	156
Mr. Liu Weichang (Note (i))	26	–	–	26
	546	–	–	546

16. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Executive directors and non-executive directors *(Continued)*

	Fees HK$'000	Salaries, allowances and equity-settled share option benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2011				
Executive directors:				
Ms. Ma Zheng	–	1,183	16	1,199
Mr. Wong Pui Yiu	–	719	12	731
	–	1,902	28	1,930
Independent non-executive directors:				
Mr. Wan Tze Fan Terence	173	–	–	173
Mr. Chung Chin Keung	173	–	–	173
Mr. Liu Weichang	173	–	–	173
	519	–	–	519

Notes:

(i) Mr. Liu Weichang was re-designated from independent non-executive director to executive director on 1 March 2012 and resigned on 31 December 2012.

(ii) During the current and prior years, no emolument was paid by the Group to any directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration during the current and prior years.

16. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(b) Five highest paid individuals

The five highest paid individuals during the year included three (2011: two) directors, details of whose remuneration are set out in Note 16(a) above. Details of the remuneration of the remaining two (2011: three) non-director, highest paid individuals for the year are as follows:

	2012	2011
	HK$'000	HK$'000
Basic salaries, share options and other benefits	**1,098**	1,215
Discretionary bonuses	**177**	210
Retirement benefit scheme contributions	**28**	36
	1,303	1,461

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Nil - HK$1,000,000	**2**	3

The emoluments paid or payable to members of senior management other than directors was within the following band:

	Number of individuals	
	2012	2011
Nil - HK$1,000,000	**1**	1

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2011	90,354	376	1,870	80,070	112	5,445	–	178,227
Additions	9,985	–	14	507	–	–	62	10,568
Disposals	–	–	–	(36)	–	(613)	–	(649)
Exchange realignment	4,197	–	65	3,719	–	253	–	8,234
At 31 December 2011 and 1 January 2012	104,536	376	1,949	84,260	112	5,085	62	196,380
Additions	3,303	844	330	1,948	–	1,068	2,040	9,533
Disposals	–	–	–	–	–	(260)	–	(260)
Write off	(1,383)	–	(498)	–	–	(1,540)	–	(3,421)
Reclassification	2,102	–	–	–	–	–	(2,102)	–
Exchange realignment	1,012	–	14	816	–	49	–	1,891
At 31 December 2012	109,570	1,220	1,795	87,024	112	4,402	–	204,123
Accumulated depreciation and impairment								
At 1 January 2011	9,783	376	1,317	8,193	110	3,728	–	23,507
Depreciation	4,528	–	349	7,667	1	746	–	13,291
Disposals	–	–	–	(8)	–	(453)	–	(461)
Exchange realignment	454	–	41	381	–	173	–	1,049
At 31 December 2011 and 1 January 2012	14,765	376	1,707	16,233	111	4,194	–	37,386
Depreciation	4,891	80	139	7,813	1	342	–	13,266
Impairment loss	17,125	–	–	14,850	–	–	–	31,975
Disposals	–	–	–	–	–	(234)	–	(234)
Write off	–	–	(487)	–	–	(1,386)	–	(1,873)
Exchange realignment	143	–	12	157	–	41	–	353
At 31 December 2012	36,924	456	1,371	39,053	112	2,957	–	80,873
Net book value								
At 31 December 2012	72,646	764	424	47,971	–	1,445	–	123,250
At 31 December 2011	89,771	–	242	68,027	1	891	62	158,994

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The buildings of the Group are located in the PRC and held under a medium term lease.

As at 31 December 2012, the directors evaluated the financial performance of the Group's cash generating unit of manufacture and sale of PE pipes and in light of the persistently declining trend in its revenue recognised during the year, an impairment loss of HK$31,975,000 was recognised for the year which represented the write-down of certain property, plant and equipment in the manufacture and sale of PE pipes segment to the recoverable amount. This was recognised in the consolidated statement of comprehensive income as an expense. The recoverable amount was based on value in use and was determined at the level of the cash generating unit ("CGU"). The CGU consisted of the PRC based assets of the Group. In determining value in use of the CGU, the cash flows were discounted at a rate of 8% on a pre-tax basis.

18. LAND USE RIGHTS

The Group's interest in land use rights represents prepaid operating lease payments and movements in the carrying amount are analysed as follows:

	2012 **HK$'000**	2011 HK$'000
Outside Hong Kong, held on medium-term lease	**32,339**	32,785
Opening carrying amount	**32,785**	32,053
Amortisation	**(764)**	(757)
Exchange difference	**318**	1,489
Closing carrying amount	**32,339**	32,785
Less: Current portion included in other receivables, deposits and prepayments	**(764)**	(757)
Non-current portion	**31,575**	32,028

The Group's leasehold land is located in the PRC and held under a medium term lease with a term of 50 years commencing on 28 February 2005.

19. ASSETS AND LIABILITIES UNDER DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As disclosed in the 2010 and 2011 financial statements, on 12 November 2010, independent shareholders of the Company had approved the deed of settlement dated 17 September 2010 executed by the Company, the joint and several liquidators (the "Liquidator") of Lehman Brothers Commercial Corporation Asia Limited ("Lehman Brothers") and Lehman Brothers in relation to the redemption of the 4.5% convertible bonds in the principal amount of HK$246,250,000 issued by the Company to Lehman Brothers in October 2007 (the "Convertible Bonds") (the "Deed of Settlement").

Details of the terms of the Deed of Settlement are set out in the Company's circular and announcement dated 11 October 2010 and 2 November 2010 respectively. The Company paid HK$85 million to Lehman Brothers under the terms of the Deed of Settlement as partial consideration of the redemption of the Convertible Bonds, which amount was included in other receivables, deposits and prepayments as at 31 December 2012 and 2011 (Note 24). The remaining consideration under the Deed of Settlement is represented by the transfer of the 100% of the issued share capital of Zhong Ping Resources Holdings Limited ("Zhong Ping") or all of the assets held directly or indirectly by Zhong Ping (the "Sale Interest") to Lehman Brothers or a party so directed by Lehman Brothers.

Pursuant to the Deed of Settlement, completion of the Deed of Settlement is conditional upon the fulfillment of certain conditions on or before 31 October 2011 or such later date as may be agreed between the Company and Lehman Brothers (the "Long Stop Date"). In order to allow more time for the transfer of the Sale Interest to Lehman Brothers, the Company, Lehman Brothers and the Liquidator agreed to extend the Long Stop Date on several occasions. The latest extension is to extend the Long Stop Date to 30 June 2013 or such other date as may be further agreed by the parties. Except for the change in the Long Stop Date, all other terms and conditions of the Deed of Settlement remain unchanged and shall continue in full force and effect.

The Sale Interest represents Zhong Ping's 70% interest in ARIA LLC ("ARIA"), a company incorporated in Mongolia with limited liability. ARIA in turn is the holder of the mining license with an expiry date of 10 August 2035 in the green field mining exploration project, the Mungun-Undur Polymetallic Project (the "Project") located in Mungun-Undur, Khentii Province, Mongolia. The Project has prospects for silver, lead, zinc and tin mineralization. Other than holding the 70% equity interest of ARIA, Zhong Ping is inactive and has little assets or liabilities of its own.

19. ASSETS AND LIABILITIES UNDER DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (Continued)

Following the approval of the Deed of Settlement on 12 November 2010, the Group had effectively discontinued and ceased its mining activities. Zhong Ping and ARIA have remained inactive, received no income and incurred no expenses since that date. The mining operation of ARIA had been shown as discontinued operations in the 2012, 2011 and 2010 financial statements.

As mentioned in Note 1, the Group is currently in the final stage of completing the transfer of the Sale Interest to the transferee (the "Transferee") directed by Lebman Brothers under the agreement for the transfer of shares in ARIA made between Zhong Ping, the Transferee and the Company dated 28 March 2012 (the "Transfer Agreement"). According to the Transfer Agreement, the transfer of shares in ARIA by Zhong Ping to the Transferee should take place on 27 May 2012 or such other date as may be agreed by the Transferor and Transferee in writing. The parties have since agreed to extend the completion of the share transfer to 30 June 2013 in accordance with the terms of the Deed of Settlement and Transfer Agreement.

Following the agreement to dispose of Zhong Ping's equity interest in ARIA to Lehman Brothers, assets and liabilities of Zhong Ping and ARIA have been classified as held for sale in the financial statements for each of the three years ended 31 December 2012. The positions as at 31 December 2012 and 2011 are as follows:

	2012 **HK$'000**	2011 HK$'000
Mining rights	**207,519**	207,519
Cash and cash equivalents	**1**	1
Other receivables	**92**	92
Assets related to the mining business classified as held for sale	**207,612**	207,612
Other payables	**255**	255
Deferred tax liabilities	**29,255**	29,255
Liabilities of the mining business associated with assets classified as held for sale	**29,510**	29,510
Net assets of the mining business classified as held for sale	**178,102**	178,102

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**470,749**	470,749
Amounts due from subsidiaries (a)	**1,073,837**	1,078,831
	1,544,586	1,549,580
Less: Provision for impairment (b)	**(970,308)**	(905,604)
	574,278	643,976
Amounts due to subsidiaries (c)	**(157,756)**	(157,793)

(a) The balance includes an amount of HK$5,000,000 (2011: HK$6,500,000) which bears interest at the prime rate of The Hongkong and Shanghai Banking Corporation Limited plus 1% per annum, repayable within two years (2011: one year). The balance was fully provided for as at 31 December 2012 and 2011. The rest of the amounts are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, these amounts in substance represent the Company's investments in the subsidiaries in the form of quasi equity loans.

(b) Accumulated impairment provision of HK$970,308,000 (2011: HK$905,604,000) was recognised as at 31 December 2012 because the related recoverable amounts of the investment costs and amounts due from subsidiaries with reference to the net assets or net deficit of the respective subsidiaries were estimated to be less than their respective carrying amounts. Accordingly, the carrying amounts of the related investment costs in subsidiaries and amounts due from them are reduced to their respective recoverable amounts.

(c) The amounts due to subsidiaries classified as current liabilities are unsecured, interest free and repayable on demand.

20. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries as at 31 December 2012 were as follows:

Name of company	Country of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Principal activity
e-gameasia.com Ltd	BVI/Hong Kong	10,279,450 ordinary shares of HK$1 each	100%	100%	–	Investment holding
Billybala Software (BVI) Limited	BVI/Hong Kong	1 ordinary share of US$0.01 each	100%	100%	–	Investment holding
Yichang Fuliangjiang Joint Composite Limited (Note (i))	PRC	HK$122,380,000	100%	–	100%	Production of PE pipes and trading of composite materials
Shoukong Group Limited	BVI/Hong Kong	20,000,000 ordinary shares of US$1 each	100%	100%	–	Investment holding
Yichang Shoukong Industries Co., Ltd (Note (i))	PRC	HK$250,000,000	100%	–	100%	Investment holding
Yaoqixin Technology (Shenzhen) Co., Ltd (formerly known as Billybala Software (Shenzhen) Limited) (Note (i))	PRC	HK$1,000,000	100%	–	100%	Provision of administrative service to group companies
Billybala iGame Limited	Hong Kong	7 ordinary shares of HK$1 each	100%	–	100%	Provision of administrative service to group companies
Zhong Ping Resources Holdings Limited (Note (ii))	BVI/Hong Kong	75,000,000 ordinary shares of HK$1 each	100%	100%	–	Investment holding
ARIA LLC (Note (ii))	Mongolia	1,330,000 ordinary shares of US$1 each	70%	–	70%	Mining resources development

20. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

(i) Each subsidiary is registered as a wholly-foreign-owned enterprise under the PRC law.

(ii) As detailed in Note 19, the Group had discontinued and ceased its mining operations associated with its investments in these two subsidiaries during the year ended 31 December 2010.

(iii) None of the subsidiaries had issued any debts securities at the end of the year.

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

21. AVAILABLE-FOR-SALE INVESTMENTS

	The Group		**The Company**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed outside Hong Kong (Note (a))	**4,680**	3,896	**4,680**	3,896
Unlisted outside Hong Kong (Note (b))	**31,718**	–	**–**	–
	36,398	3,896	**4,680**	3,896

21. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Notes:

(a) This investment offers the Group the opportunity for return through dividend income and capital gains. The Group acquired approximately a 1% equity interest in the investee through share subscription in 2011. The Group intends to hold this investment for long term purpose. The investment was stated at cost less any impairment loss as at 31 December 2011.

The investee succeeded to have its shares listed in the OTC Bulletin Board ("OTC") in the United States on 7 August 2012 and is able to trade its shares over the counter. However, there has not been any transaction of the investee's shares in the OTC market since August 2012. As there is no quoted market price in an active market, the fair value of the investment could not be reliably measured as at 31 December 2012. The Group has resolved to engage Greater China Appraisal Limited ("Greater China"), an independent firm of professional valuers with relevant professional qualification and experience, to determine the fair value of the investment. Greater China has determined the fair value of the investment to be approximately HK$4,680,000 as at 31 December 2012 by using the Guideline Transaction Method.

(b) The investments represent unlisted investment funds managed by banks in the PRC. The unlisted investment funds do not have quoted market prices in an active market and the directors consider that their fair values cannot be reliably measured. The investments are therefore stated at cost less any impairment as at 31 December 2012.

22. INVENTORIES

	The Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**18,742**	6,197
Work in progress	**143**	141
Finished goods	**16,262**	16,943
	35,147	23,281

As at 31 December 2012, the Group made a provision of HK$3,126,000 (2011: HK$Nil) to reduce the cost of finished goods to their net realisable value. The provision was recognised as cost of sales for the year (Note 10).

23. TRADE RECEIVABLES

	The Group	
	2012	2011
	HK$'000	HK$'000
Trade receivables	**53,951**	77,726
Less: Provision for impairment	**(23,060)**	(3,293)
	30,891	74,433

(a) The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month and can be extended to three months or more for major customers. The Group has set a maximum credit limit for each customer. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

(b) The below table reconciled the provision for impairment loss of trade receivables for the year:

	The Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**3,293**	–
Impairment loss recognised	**23,060**	3,293
Bad debts written off	**(3,293)**	–
At 31 December	**23,060**	3,293

At 31 December 2012, the Group's trade receivables of HK$23,060,000 (2011: HK$3,293,000) were individually determined to be impaired. The individually impaired receivables related to debts for which management has experienced prolonged delay in settlement and assessed to be irrecoverable. Consequently, specific provision for impairment has been fully recognised during the year. The Group does not hold any collateral over these balances.

23. TRADE RECEIVABLES (Continued)

(c) An aging analysis of the trade receivables (net of impairment loss) as at the end of reporting period, based on the invoice dates, is as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Within 30 days	**4,823**	26,603
31 – 60 days	**1,744**	613
61 – 90 days	**2,564**	889
Over 90 days	**21,760**	46,328
	30,891	74,433

(d) An ageing analysis of trade receivables (net of impairment loss) that are neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Not past due	**9,066**	66,684
Less than 31 days past due	**2,179**	90
31 – 60 days past due	**1,176**	25
61 – 90 days past due	**708**	–
Over 90 days but less than 1 year past due	**16,161**	7,634
Over 1 year but less than 2 years past due	**1,601**	–
	21,825	7,749
	30,891	74,433

23. TRADE RECEIVABLES *(Continued)*

(d) *(Continued)*

Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to customers that had a good track record with the Group. Based on past experience, management believes that no 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. The Group does not hold any collateral over these balances.

24. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		**The Company**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other receivables and deposits	**88,544**	95,481	**85,000**	85,000
Prepayments	**30,408**	47,402	**209**	221
	118,952	142,883	**85,209**	85,221
Less: Provision for impairment loss on prepayments	**(10,688)**	(18,294)	**–**	–
	108,264	124,589	**85,209**	85,221

The balance as at 31 December 2012 included payments of HK$13,233,000 (2011: HK$28,885,000) to suppliers, net of provision for impairment loss of HK$10,688,000 (2011: HK$18,294,000), for future purchases of inventories in anticipation to increase in prices of composite materials and payments of HK$85,000,000 (2011: HK$85,000,000) to Lehman Brothers as partial consideration for the redemption of the Convertible Bonds (Note 19).

24. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

The below table reconciled the provision for impairment loss of other receivables, deposits and prepayments for the year:

	The Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**18,294**	–
(Reversal of provision)/provision for impairment loss	**(7,783)**	18,294
Exchange realignment	**177**	–
At 31 December	**10,688**	18,294

25. INVESTMENTS HELD FOR TRADING

	The Group	
	2012	2011
	HK$'000	HK$'000
Listed equity securities held at fair value		
– in Hong Kong	**1,538**	–
– outside Hong Kong	**403**	–
	1,941	–

26. CASH AND CASH EQUIVALENTS

At the end of reporting period, cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$6,189,000 (2011: HK$30,534,000). The RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents approximate their fair values.

27. TRADE PAYABLES

An aging analysis of trade payables, based on the invoice dates, is as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Within 30 days	**970**	6,928
31 – 60 days	**66**	1,651
61 – 90 days	**211**	300
Over 90 days	**8,523**	4,143
	9,770	13,022

28. CONVERTIBLE BONDS

The Group's and the Company's outstanding convertible bonds as at 31 December 2012 and 2011 are as follows:

The 4.5% convertible bonds were issued to Lehman Brothers on 31 October 2007 with a nominal value of HK$246,250,000 and matured on 31 October 2010. No conversion had taken place since the Convertible Bonds were issued.

Coupon interest of 4.5% per annum was payable semi-annually in arrears up to 31 October 2010. The effective interest of the Convertible Bonds was determined at 9.11% per annum using the effective interest method. The carrying value of the Convertible Bonds as at 31 December 2012 was HK$246,250,000 (2011: HK$246,250,000).

In 2008, Lehman Brothers was put into liquidation, the process of which is still in progress as of the date of approval of these financial statements. As set out in Note 19, the Company has entered into a Deed of Settlement with Lehman Brothers for the settlement of the Convertible Bonds.

The fair value of the liability component of the above convertible bonds was calculated using the market interest rates for equivalent non-convertible bonds. The residual amounts, representing the value of the equity conversion component, was included in equity.

28. CONVERTIBLE BONDS (Continued)

The convertible bonds recognised in the statement of financial position are calculated as follows:

	The Group and the Company	
	2012	2011
	HK$'000	HK$'000
Nominal value of convertible bonds	**246,250**	246,250
Equity component	**(22,164)**	(22,164)
Direct transaction costs attributable to the liability component	**(7,087)**	(7,087)
Liability component on initial recognition	**216,999**	216,999
Accumulated interest expenses recognised	**62,525**	62,525
Accumulated interest paid	**(24,040)**	(24,040)
Accumulated accrued interest expenses	**(9,234)**	(9,234)
Liability component at 31 December	**246,250**	246,250
Less: current portion	**(246,250)**	(246,250)
Non-current portion	**–**	–

29. SHARE CAPITAL

	Number of shares	Amount
	'000	HK$'000
Authorised:		
Ordinary share of HK$0.0125 each at 1 January 2011, 31 December 2011 and 2012	9,600,000	120,000
Issued and fully paid:		
Ordinary share of HK$0.0125 each at 1 January 2011, 31 December 2011 and 2012	2,414,405	30,180

30. SHARE OPTIONS SCHEME

The Group maintained a share options scheme for employee compensation. All share-based employee compensation was settled in equity. The Group had no legal or constructive obligations to repurchase or settle the options.

(a) On 28 November 2001, a share options scheme was approved pursuant to a written resolution of the Company. This scheme was in force for a period of 10 years with effect from 28 November 2001. The scheme expired on 27 November 2011.

Because of the Offer (as defined in the Company's announcement dated 3 June 2011) in relation to the change of shareholding of substantial shareholders of the Company and in accordance with the terms of the scheme, the Company had, on 3 June 2011, given notice to the option holders (other than Ms. Ma Zheng (the "Offeror") and the parties acting in concert with her), whereupon such holders were entitled to exercise the options in full or in part (to the extent not already exercised) at any time within 14 days after the date of such notice (i.e. any time during the period from 4 June 2011 to 17 June 2011), after which the options would lapse according to the terms of the scheme. Up to 17 June 2011, none of the options had been exercised and therefore, all the 75,080,162 options (including the 2,898,848 options held by the Offeror) lapsed according to the terms of the scheme.

30. SHARE OPTIONS SCHEME (Continued)

(a) *(Continued)*

Details of the share options conditionally granted by the Company pursuant to the scheme and the movements of options during the year were as follows:

Grantee	Date of granted	Balance as at 1 January 2011 '000	Lapsed during 2011 '000	Balance as at 31 December 2011 and 2012 '000	Period during which the options are exercisable	Adjusted exercise price per share
Ms Ma Zheng (Director)	8 January 2008	2,899	(2,899)	–	8 July 2008 to 27 November 2011	HK$1.5182
Mr Wan Tze Fan Terence (Director)	8 January 2008	435	(435)	–	8 July 2008 to 27 November 2011	HK$1.5182
Mr Li Weichang (Director)	8 January 2008	435	(435)	–	8 July 2008 to 27 November 2011	HK$1.5182
Employees	8 January 2008	71,311	(71,311)	–	8 July 2008 to 27 November 2011	HK$1.5182
		75,080	(75,080)	–		

No share options were granted or exercised in 2011. All the 75,080,162 share options lapsed on 17 June 2011.

30. SHARE OPTIONS SCHEME (Continued)

(b) On 8 May 2012, a new share option scheme (the "New Share Option Scheme") was adopted by the shareholders of the Company. The purpose of the New Share Option Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group's operations. Under the terms of the New Share Option Scheme, the Board may, at its discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The total number of shares which may fall to be issued upon exercise of all of the outstanding options granted and yet to be exercised under the New Share Option Scheme and other schemes of the Company must not exceed 30% of the shares in issue from time to time. The New Share Option Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional. The New Share Option Scheme was adopted by the shareholders of the Company at the annual general meeting of the Company held on 8 May 2012.

The definition of eligible person in the New Share Option Scheme include any suppliers, consultants, agents, advisors and distributors who, in the sole discretion of the Board, have contributed or may contribute to the Group. The total number of shares in respect of which options may be granted under the New Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of approval of the New Share Option Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders.

Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Any grant of options to a connected person (including but not limited to a Director, chief executive or substantial shareholder) or its associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

30. SHARE OPTIONS SCHEME *(Continued)*

(b) *(Continued)*

Where options are proposed to be granted to a connected person who is also a substantial shareholder or an independent non-executive Director or their respective associates and if such grant would result in the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant to such person representing in aggregate over 0.1% of the total issued Shares and having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million, then the proposed grant must be subject to the approval of shareholders of the Company taken on a poll in a general meeting. All connected persons of the Company must abstain from voting at such general meeting.

The exercise price for shares under the New Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a Business Day, (ii) the average of the closing prices of the Shares as stated in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the date of grant; and (iii) the nominal value of the Share on the date of grant. Any options granted under the New Share Option Scheme shall end in any event not later than ten years from the Commencement Date (as defined in the New Share Option Scheme). A nominal value of HK$1.00 is payable on acceptance of each grant of options.

No share options were granted by the Company and no share options were exercised or lapsed under the New Share Option Scheme during the year ended 31 December 2012.

At the end of reporting period and the date of approval of these financial statements, the Company had no share options outstanding under the New Share Option Scheme.

31. RESERVES OF THE COMPANY

	Share premium account HK$'000 (Note a)	Convertible bonds reserve HK$'000	Employee compen-sation reserve HK$'000 (Note 30)	Available-for-sale financial assets reserve HK$'000 (Note b)	Accumulated losses HK$'000	Total equity HK$'000
Balance at 1 January 2011	430,677	17,922	33,618	–	(184,856)	297,361
Lapse of share options	–	–	(33,618)	–	33,618	–
Loss and total comprehensive income for the year	–	–	–	–	(8,791)	(8,791)
Balance at 31 December 2011 and at 1 January 2012	430,677	17,922	–	–	(160,029)	288,570
Loss for the year	–	–	–	–	(69,775)	(69,775)
Other comprehensive income	–	–	–	784	–	784
Total comprehensive income for the year	–	–	–	784	(69,775)	(68,991)
Balance at 31 December 2012	430,677	17,922	–	784	(229,804)	219,579

Notes:

(a) The share premium account of the Company includes: (i) the premium arising from issues of shares of the Company at a premium less share issue expenses; and (ii) the excess of the then combined net assets of the subsidiaries acquired pursuant to the reorganisation scheme in preparation for the public listing of the Company's shares over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

(b) Available-for-sale financial assets reserve comprises the cumulative net change in the fair value of available-for-sale investments held at the end of reporting period and is dealt with in accordance with the accounting policy in Note 4(g)(ii).

32. CAPITAL COMMITMENTS

The Group

Capital commitments outstanding at the end of reporting period not provided for in the financial statements were as follows:

	2012 HK$'000	2011 HK$'000
Purchase of property, plant and equipment contracted but not provided for	–	17,048

The Company

The Company did not have any significant capital commitments at the end of both reporting periods.

33. OPERATING LEASE ARRANGEMENTS

The Group

The Group is the lessee in respect of certain of its office premises held under operating leases. The leases typically run for an initial period of one to three years at fixed rental. None of the leases includes contingent rentals.

At the end of reporting period, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	932	729
After one year but within five years	2,373	277
	3,305	1,006

33. OPERATING LEASE ARRANGEMENTS (Continued)

The Company

The Company did not have any significant operating lease commitments at the end of both reporting periods.

34. CONTINGENT LIABILITIES

Environmental contingencies

To date, the Group has not incurred any significant expenditure for environmental remediation, is currently not involved in any environmental remediation and has not accrued any amounts for environmental remediation relating to its operations. Under the existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Also, the Group expects it will be able to complete the disposal of its mining rights very soon (Note 19). Therefore, no provision was made as at 31 December 2012.

35. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed below. Details of transactions between the Group and a related party are as follows:

(a) During the year and in the ordinary course of business, the Group had the following material transactions with a related party:

	2012 **HK$'000**	2011 HK$'000
Related company		
– Sale of products	**–**	750

For the year ended 31 December 2011, a former major shareholder of the Company was also a former director of the related company which was not a member of the Group.

(b) Members of key management during the year comprised only of the directors whose remuneration is set out in Note 16(a) to the financial statements.

36. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which excludes the convertible bonds disclosed in Note 28 for the reason stated in Note 19, cash and cash equivalents disclosed in Note 26 and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in the consolidated statement of changes in equity.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 5% to 10% determined as the proportion of net debts to total equity as defined above.

37. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk, currency risk and price risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, the Group does not obtain collateral from customers.

37. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 22% (2011: 39%) and 69% (2011: 93%) of trade receivables were due from customers with the largest balance and five largest balances respectively within the manufacture and sale of PE pipes segment.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables and other receivables, deposits and prepayments are set out in Notes 23 and 24 respectively.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All the Group's and the Company's financial liabilities at the end of reporting period are due within one year or on demand.

(c) Interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rate.

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

	2012		2011	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Variable rate				
Bank balances	**0.725**	**6,706**	0.267	30,656

37. FINANCIAL RISK MANAGEMENT (Continued)

(c) Interest rate risk (Continued)

It is estimated that as at 31 December 2012, a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss after income tax and accumulated losses by HK$67,000 (2011: HK$307,000).

(d) Currency risk

Currency risk to the Group is minimal as most of the Group's transactions are carried out in the respective functional currencies of the group entities.

(e) Price risk – Commodity price risk

The Group is exposed to equity price changes arising from equity instruments classified as trading securities and available-for-sale equity securities.

The Group's listed investments are listed on the Stock Exchange of Hong Kong and NASDAQ. Decisions to buy and sell trading securities are based on the performance of individual securities compared to that of the Index and other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The sensitivity analysis on equity price risk includes the Group's financial instruments, which fair value or future cash flows will fluctuate because of changes in their corresponding or underlying asset's equity price. If the prices of the respective equity instruments had been 10% higher/lower, loss for the year would decrease/increase by HK$83,000 (2011: HK$Nil) and other component of equity would decrease/increase by HK$83,000 (2011: HK$Nil).

(f) Fair values

The fair values of the Group's financial assets and liabilities are not materially different from their carrying amounts as at 31 December 2012 and 2011.

37. FINANCIAL RISK MANAGEMENT (Continued)

(g) Fair values estimation

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subject in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2012 and 2011 may be categorised as follows:

	2012	2011
	HK$'000	HK$'000
Financial assets		
Loans and receivables at amortised cost (including cash and cash equivalents)	**126,546**	201,453
Fair value through profit or loss		
– Held for trading	**1,941**	–
Available-for-sale investments, at cost	**31,718**	3,896
Available-for-sale investments, at fair value	**4,680**	–
Financial liabilities		
Financial liabilities measured at amortised cost	**267,971**	270,964

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

- the fair value of other financial assets are determined with reference to observable current market transactions and other relevant inputs derived from quoted prices of the underlying investments.

38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Group 2012			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets				
Investments held for trading				
– Listed	**1,941**	**–**	**–**	**1,941**
Available-for-sale investments	**–**	**4,680**	**–**	**4,680**

There is no transfer between Level 1 and Level 2 of the fair value hierarchy during the year.

39. EVENTS AFTER THE REPORTING DATE

On 18 January 2013, the Group made capital contribution of RMB4,800,000 (equivalent to HK$5,970,000) to a newly established company in the PRC with a registered capital of RMB12,000,000. This company engages in agricultural and related business. When capital contributions are fully paid by all other shareholders, the Group will hold a 40% equity interest in this company.

Financial Summary

(Expressed in Hong Kong dollars)

The following is a summary of the consolidated results and assets and liabilities of the Group, prepared for the last five years, as extracted from the audited consolidated financial statements of the Group. This summary does not form part of the audited financial statements.

Results

	Year ended 31 December				
	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Continuing operations					
Turnover	**39,192**	89,699	157,651	38,712	72,770
Other income and gains and losses	**6,494**	198	159	539	7,524
Operating expenses	**(121,877)**	(139,991)	(170,216)	(58,583)	(136,248)
Operating loss	**(76,191)**	(50,094)	(12,406)	(19,332)	(55,954)
Finance costs	**(45)**	(900)	(22,416)	(20,144)	(20,566)
Loss before income tax	**(76,236)**	(50,994)	(34,822)	(39,476)	(76,520)
Income tax (charge)/credit	**(314)**	–	821	817	1,330
Loss for the year from continuing operations	**(76,550)**	(50,994)	(34,001)	(38,659)	(75,190)
Discontinued operations					
Loss for the year from discontinued operations	**–**	–	(24,761)	(827,546)	(1,223,807)
Loss for the year	**(76,550)**	(50,994)	(58,762)	(866,205)	(1,298,997)
Loss attributable to:					
Owners of the Company	**(76,550)**	(50,994)	(57,170)	(864,145)	(1,243,920)
Non-controlling interests	**–**	–	(1,592)	(2,060)	(55,077)
	(76,550)	(50,994)	(58,762)	(866,205)	(1,298,997)

Assets and Liabilities

	31 December				
	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Total assets	**582,189**	656,670	761,976	886,049	1,678,232
Total liabilities	**(298,485)**	(300,493)	(371,964)	(477,866)	(495,128)
	283,704	356,177	390,012	408,183	1,183,104