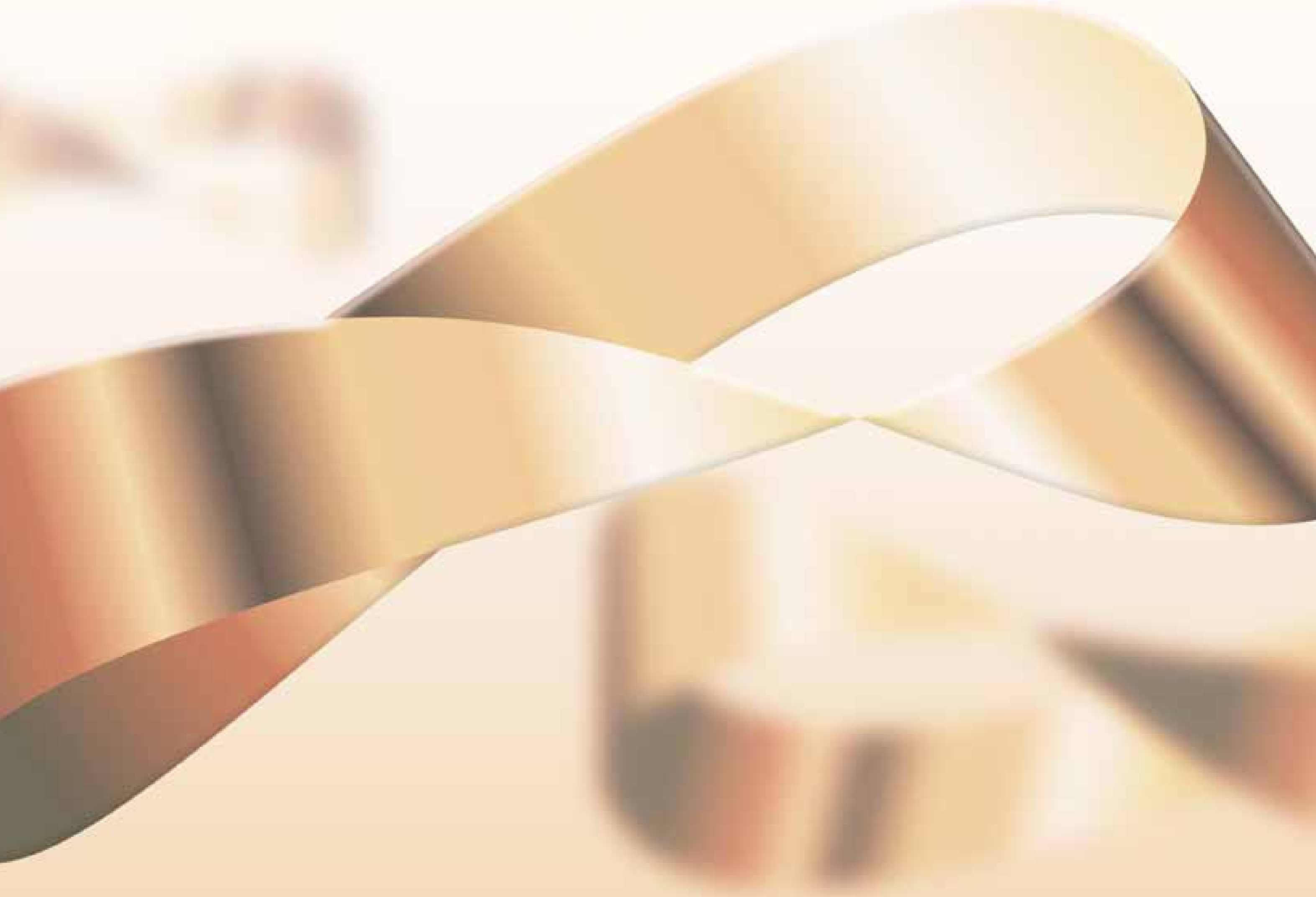
# Hua Yi Copper Holdings Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 559

# ANNUAL REPORT 2009



# Content

# Corporate Information

## DIRECTORS

**Executive Directors**

WONG Hin Shek *(Chairman)*
CHU Yuk Kuen *(Chief Executive Officer)*
CHAU Lai Him

**Independent Non-Executive Directors**

CHIU Wai On
MAN Kwok Leung
WONG Yun Kuen

## COMPANY SECRETARY

MAN Tsz Sai Lavender, *ACIS, ACS*

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

No. 7, 2nd Floor
Kingsford Industrial Centre
13 Wang Hoi Road
Kowloon Bay
Kowloon
Hong Kong

## STOCK CODE

0559

## WEBSITE

www.huayicopper.com

## AUDITORS

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

## LEGAL ADVISOR

DS Cheung & Co.
Room 1910-1913 Hutchison House
10 Harcourt Road
Central
Hong Kong

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKS

Standard Chartered Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited

# Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Hua Yi Copper Holdings Limited (the "Company"), together with its subsidiaries, (the "Group"), I would like to present the annual report of the Company for the year ended 30 June 2009.

## REVIEW AND PROSPECT

For the year under review, the Group recorded a significant loss of HK$325 million (2008: profit of approximately HK$11 million). The loss was primarily attributable to (i) the consequence of the global economic downturn which led to a significant decline of the overall turnover of the Group; (ii) the substantial decrease in copper prices which affected the selling prices and profit margin of the Group's product; and (iii) the impairment loss of the mining business due to the decline in value of the iron-ore mines.

Moving forward, the Group would remain alert on the economic weather which might impact the operation of the Group and the industry as a whole. At the same time, the Group would continue its risk management and cost control initiatives in each of its business segments in order to maintain its competitiveness under the current situation of the uncertainty on the global economy.

The Board would continue to streamline its existing operations and identify new business opportunities which would maximize the returns to the shareholders as a whole.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our employees for their dedication, loyalty and integrity towards the Group. I would also like to express my gratitude to our shareholders, customers, suppliers and other business partners for their trust and support to the Group throughout the year.

**Wong Hin Shek**
*Chairman*

Hong Kong, 12 October 2009

# Management Discussion and Analysis

## FINANCIAL RESULTS

The Group recorded a turnover of approximately HK$1,197 million, representing a decrease of approximately 61% as compared to approximately HK$3,075 million last year. Loss attributable to shareholders was approximately HK$323 million (2008: profit attributable to shareholders of approximately HK$11 million). Basic loss per share was approximately HK140.96 cents (2008: basic earnings per share of approximately HK6.89 cents (restated)).

## BUSINESS REVIEW

During the year under review, the continuing operations of the Group are copper rod business, mining business and the cable and wire business. The disposal of the life-like plant business was completed during the year. The copper rod business continued to be the core business of the Group and recorded a turnover of approximately HK$1,037 million, representing approximately 87% of the Group's total turnover. The turnover of the discontinued life-like plant business was approximately HK$108 million, accounted for approximately 9% of the Group's total turnover, while the cable and wire business and iron-ore mining business merely recorded approximately HK$50 million and HK$3 million, representing approximately 4% and less than 1% of the Group's total turnover respectively. All turnover from continuing operations of the Group was generated from the People's Republic of China (the "PRC") during the year.

### Copper Rod Business

The copper rod business covers the manufacturing and trading of copper rods and copper wires used primarily in producing power wires and cables for household electrical products and infrastructure facilities.

As a consequence of the financial crisis which affected the global economy as a whole, the copper prices dropped dramatically since August 2008 which led to a decrease in selling prices and profit margins of the Group's product. To mitigate the risk of fluctuation in inventory value, the Group had tightened its inventory and purchasing policy during the year under review. As a result of the decline in demand due to the economic downturn and the drop in selling prices of the Group's products together with the disposal of the copper rod business located in Dongguan City as part of the asset swap transaction (Details of the asset swap transaction were set out in the section under "ASSET SWAP"), turnover from the copper rod business decreased significantly by approximately 65% from previous corresponding year to HK$1,037 million. A segmental loss of HK$260 million was recorded for the year under review as compared to a segmental profit of approximately HK$76 million for the year ended 30 June 2008.

### Mining business

Mining operation in the iron-ore concentrated powder processing plant was suspended during the Beijing Olympic Game period and was remained idle since then as the prospect of profitability from the operation was remote as the price of iron-ore concentrated powder declined significantly due to the global economic downturn.

In view of the uncertainty of the profitability of the mining business, the Group made an impairment loss of the mining business of approximately HK$123 million during the year in order to reflect the adverse impact of the uncertainty on the value of the mining business.

### Life-like plants business

The Group had fulfilled all the conditions precedent to the disposal of life-like plants business in December 2008. Upon completion of the transaction, the Group would focus in its core business.

## PROSPECTS

Upon completion of the asset swap transaction in February 2009, the Group's production facilities were located in close proximity with each other, which would allow a saving in cost, more flexibility on the part of the management in allocating and mobilizing available resources, in particular labour resources, within the same production base. The Group's external financing from banks were significantly reduced as a result of the asset swap. At the same time, the Group was also strengthened by the vertical integration of its business which covers copper electrical wires production and power wires and cables production.

The Group would continue its cost control initiatives and risk management measures in each of its business segments with the view to remain competitive in the industry. The Group is also committed to explore new opportunities to maximize the returns to the shareholders and enhance the efficiency and effectiveness of the Group's capital as a whole.

## FINAL DIVIDEND

The Board of the Company resolved not to recommend any final dividend for the year ended 30 June 2009 (2008: nil)

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2009, the Group had cash and bank balances amounting to approximately HK$89 million (2008: HK$174 million) and net current assets value being over HK$11 million (2008: 311 million). The Group's gearing ratio as at 30 June 2009 was 0.27 (2008: 0.85), being a ration of total bank borrowings of approximately HK$108 million (2008: HK$599 million) to shareholders' fund of approximately HK$397 million (2008: HK$707 million).

As at 30 June 2009, the Group had pledged certain property, plant and machinery with aggregate net book value of approximately HK$113 million (2008: HK$113 million) to secure general banking facilities granted to the Group.

The Group does not anticipate any material foreign exchange exposure since its functional currencies are mainly denominated in Hong Kong dollars, United States dollars and Renminbi.

## DISPOSAL OF LIFE-LIKE PLANT BUSINESS

On 21 May 2007, the Company and Solartech International Holdings Limited ("Solartech") whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") jointly announced that Brightpower Assets Management Limited ("Brightpower"), an indirect wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the "Sale and Purchase Agreement") on 19 May 2007 with Eternal Gain Investments Limited ("Eternal Gain"), a company incorporated in the British Virgin Islands, and Kong Sun Holdings Ltd ("Kong Sun"), a company incorporated in Hong Kong whose shares are listed on the Stock Exchange. Kong Sun is the holder of 100% shareholding of Eternal Gain. Pursuant to the Sale and Purchase Agreement, Brightpower agreed to sell and Eternal Gain agreed to purchase the entire issued share capital of each of FT Far East Limited ("FTFE") and FT China Limited ("FTC") (together the "Sale Companies"), direct wholly-owned subsidiaries of Brightpower. Under the Sale and Purchase Agreement an indebtedness in the sum of HK$80,786,000 owed by FTFE to Brightpower was agreed to be assigned by Brightpower to Eternal Gain for an aggregate consideration of HK$60 million. The aggregate consideration will be settled partly by way of Kong Sun executing upon the completion date a promissory note in the amount of HK$20 million to Brightpower and partly by Kong Sun issuing upon the completion date the convertible bonds for an aggregate principal amount of HK$40 million ("Convertible Bonds") to Brightpower or its nominees as Brightpower may direct. Pursuant to the Sale and Purchase Agreement, completion is subject to the satisfaction of certain conditions precedent on or before a long stop date, being 30 September 2007 or such other date as the parties thereto may otherwise agree.

FTFE is principally engaged in trading of life-like decorative plants and FTC is principally engaged in manufacturing of life-like decorative plants through its subsidiary in the PRC. The life-like decorative plants and related business, as engaged by the Sale Companies, is a non-core business operation of the Group operating in a totally different business model when compared to the core copper business of the Group. It occupies financial and management resources of the Group in a higher proportional weight than it should have occupied in the Group. At the same time, this operation had not generated sufficient cash flow to the Group. Accordingly, the Group decided to dispose of this non-core business operation and concentrate the Group's resources and management effort in its core copper business. The Group considered that the disposal will generate a much higher cash flow in the coming three to four years than keeping the Sale Companies within the Group. In conclusion, the Directors believed that the Group would not only benefit from a stronger working capital position after realizing the proceeds from the disposal, but also it could direct all its corporate resources previously occupied by the Sale Companies towards the development of the core copper business. This would enhance the capability of the Group in horizontal expansion and vertical integration of the core copper business. Details of the material terms of the Sales and Purchase Agreement were set out in the circular dated 8 June 2007 jointly issued by the Company and Solartech.

On 20 September 2007, the Company and Solartech jointly announced that the parties to the Sale and Purchase Agreement entered into a supplemental agreement (the "First Supplement Agreement") on 19 September 2007 to (i) extend the long stop date to 31 December 2007 or such other date as the parties thereto may agree, (ii) amend certain terms of the form of the bonds instrument to be executed by Kong Sun by way of a deed poll constituting the Convertible Bonds, and (iii) amend the reference period for the profit guarantee and the net asset value guarantee made by Brightpower in the Sale and Purchase Agreement to the period commencing from 1 July 2007 to 30 June 2008. The details of other material terms of the First Supplemental Agreement were set out in the joint announcement of the Company and Solartech dated 20 September 2007.

The long stop date was further extended by mutual agreement of the parties on a number of occasions. All condition precedents to the completion of the Sale and Purchase Agreement were fulfilled and the completion took place on 16 December 2008.

## CAPITAL REORGANIZATION AND CHANGE OF BOARD LOT SIZE

On 5 November 2008, the Company put forward to its shareholders a proposal for the capital reorganization (the "Capital Reorganization") and a proposal to change the board lot size for trading in the ordinary shares of the Company from 2,000 ordinary shares of HK$0.20 each in the existing issued share capital of the Company (the "Existing Shares") to 10,000 ordinary shares of HK$0.05 each in the share capital of the Company (the "Consolidated Shares") immediately after the Capital Reorganization becoming effective.

The Capital Reorganization involved (i) capital reduction: the reduction of the par value of each existing share from HK$0.20 to HK$0.01 by the cancellation of HK$0.19 of the paid-up capital on each existing share; (ii) sub-division: the sub-division of each of the authorised but unissued shares in the capital of the Company of par value HK$0.20 into 20 shares of par value HK$0.01 each; and (iii) share consolidation: upon completion of the capital reduction and the sub-division becoming effective, the consolidation of every five shares of HK$0.01 each in both the issued and unissued share capital of the Company into one consolidated share of HK$0.05.

Following the implementation of the Capital Reorganisation set out above, the Company's authorised share capital was HK$300,000,000 divided into 6,000,000,000 shares of par value HK$0.05 each, and its issued share capital was HK$8,853,065 divided into 177,061,300 shares of par value HK$0.05 each. The aggregate amount of HK$168,208,235 arising from the above Capital Reorganisation was transferred to the Company's contributed surplus account.

Details of the Capital Reorganization and change of board lot size were set out in the circular of the Company dated 20 November 2008.

All conditions of the Capital Reorganisation have been met. The Capital Reorganisation became effective on 16 December 2008 and the consolidated Shares commenced trading on the Stock Exchange from 9:30 a.m. on 16 December 2008.

## ASSET SWAP

On 5 December 2008, the Company, Wah Yeung Capital Resources Limited ("Wah Yeung"), a subsidiary of the Company, Solartech, Chau's Industrial Investments Limited ("Chau's Industrial"), a subsidiary of Solartech, and Chau's Electrical Company Limited ("Chau's Electrical"), a subsidiary of Solartech, entered into agreements (together the "Asset Swap Agreements") which govern the asset swap between the Company and Solartech. The Asset Swap Agreements comprised four agreements, details of which are set out below.

Pursuant to the sale and purchase agreement dated 5 December 2008 entered into between Wah Yeung, Solartech and the Company, Solartech agreed to acquire from Wah Yeung (i) the one share of HK$1 in the issued share capital of Modern China Enterprises Limited ("Modern China") which represented its entire issued share capital; and (ii) the 5,000,000 shares of HK$1 each in the issued share capital of Hua Yi Copper Products Company Limited ("HY Products") which represent its entire issued share capital and the unsecured and interest-free shareholder's loan ("HY Products Shareholder's Loan") owed by HY Products and its subsidiary ("HY Products Group") to Wah Yeung for a consideration of approximately HK$189.6 million ("HY Subsidiaries Consideration") (subject to the set-off arrangement and adjustments) (the "HY Subsidiaries Agreement").

Pursuant to the sale and purchase agreement dated 5 December 2008 entered into between Chau's Industrial, the Company and Solartech, the Company agreed to acquire from Chau's Industrial the 1,000 shares of HK$1 each in the issued share capital of Solartech Enterprises Limited ("Solartech Enterprises") which represent its entire issued share capital and the unsecured and interest-free shareholder's loan ("Solartech Enterprises Shareholder's Loan") owed by Solartech Enterprises and its subsidiary ("Solartech Enterprises Group") to Chau's Industrial for a consideration of approximately HK$101.0 million ("Solartech Enterprises Consideration") (subject to the set– off arrangement and adjustments) (the "Solartech Enterprises Agreement").

Pursuant to the sale and purchase agreement dated 5 December 2008 entered into between Chau's Electrical, the Company and Solartech, the Company agreed to acquire from Chau's Electrical the one share of HK$1 in the issued share capital of Fund Resources Limited ("Fund Resources") and the unsecured and interest-free shareholder's loan (the "Fund Resources Shareholder's Loan") owing by Fund Resources and its subsidiary (the "Fund Resources Group") to Chau's Electrical for a consideration of approximately HK$77.1 million (the "Fund Resources Consideration") (subject to the set-off arrangement and adjustments) (the "Fund Resources Agreement").

Pursuant to the deed of set-off and transition arrangements dated 5 December 2008 entered into between Solartech, Chau's Industrial, Chau's Electrical, the Company and Wah Yeung (the "Set-off Deed"), all parties to the Asset Swap Agreements agreed to facilitate the settlement of the considerations payable by the relevant purchasers under HY Subsidiaries Agreement, Solartech Enterprises Agreement and Fund Resources Agreement at completion. The completion of HY Subsidiaries Agreement, Solartech Enterprises Agreement and Fund Resources Agreement intended to take place simultaneously. Pursuant to the terms of the Set-off Deed, the payment obligation of Solartech for the HY Subsidiaries Consideration shall be set-off against the payment obligation of the Company for the aggregate of the Solartech Enterprises Consideration and the Fund Resources Consideration with the difference to be settled in cash.

The consideration paid at completion was subject to the adjustments to be determined following delivery of the respective unaudited consolidated balance sheets of Modern China and its subsidiaries, HY Products Group, Solartech Enterprises and its subsidiary and Fund Resources and its subsidiary as at the date of completion.

Details of the material terms of the Asset Swap Agreements were set out in the circular dated 31 December 2008 (the "Circular") issued by the Company.

At the special general meeting held on 19 January 2009, the ordinary resolution proposed to approve the Asset Swap Agreements as contemplated in the Circular was duly passed by the shareholders of the Company.

All conditions of the Asset Swap Agreements have been met and the completion took place on 4 February 2009.

## PLACING OF 104,000,000 NEW SHARES

On 5 December 2008, the Company and Kingston Securities Limited entered into a placing agreement to place 104,000,000 new ordinary shares of par value of HK$0.05 each in the capital of the Company (the "Shares") at a price of HK$0.30 per Share on a best effort basis (the "New Shares Placing"). The net proceeds from the New Shares Placing of approximately HK$30.3 million were intended to be used as general working capital of the Group. The issuance of the Shares under the New Shares Placing was subject to the approval of the shareholders of the Company to grant a specific mandate in respect of such issuance (the "Specific Mandate"). At the special general meeting held on 19 January 2009, the shareholders approved to grant the Specific Mandate. Pursuant to the Specific Mandate, the New Shares Placing was completed on 22 January 2009 and a total of 104,000,000 Shares were issued.

Details of the New Shares Placing were set out in the announcement dated 10 December 2008 and the circular dated 31 December 2008 issued by the Company.

## DISPOSAL OF INTEREST IN FUJIAN JINYI

On 17 October 2008, Master Achieve Enterprises Limited ("Master Achieve"), an indirect wholly-owned subsidiary of the Company, entered into a capital increase agreement ("Capital Increase Agreement") with other shareholders of Fujian Jinyi, namely Minxi Xinghang and Fujian Zijin Investment Co., Ltd. ("Zijin Investment"), for an increase in capital of Fujian Jinyi. Before the Capital Increase Agreement, Fujian Jinyi's registered capital was RMB40 million. After completion of the Capital Increase Agreement, Fujian Jinyi's registered capital would be increased to RMB200 million. Fujian Jinyi intended to use the proceeds to increase its production capacity from 10,000 tonnes copper pipes to 40,000 tonnes copper pipes per year. Fujian Jinyi is mainly engaged in the production and sale of copper pipes in Shang Hang County, Fujian Province.

Pursuant to the Capital Increase Agreement, Minxi Xinghang and Zijin Investment agreed to increase their equity interests in Fujian Jinyi by contributing additional amounts of RMB78 million and RMB82 million respectively. Master Achieve will not contribute in this capital increase but has a right to buy-back the equity proportionally from Minxi Xinghang and Zijin Investment to restore to its ownership of 45% equity interest in Fujian Jinyi within two years from the day that Fujian Jinyi achieves its full scale of production. The consideration will be the original cost plus interest with reference to the bank's basic lending rate. Upon the completion of the Capital Increase Agreement, Master Achieve's equity interest in Fujian Jinyi decreased from 45% to 9%.

On 3 April 2009, Master Achieve entered into a conditional Sale and Purchase Agreement with a purchaser pursuant to which Master Achieve agreed to dispose of and the purchaser agreed to purchase the 9% equity interest of Fujian Jinyi held by Master Achieve at a consideration of approximately HK$19.43 million.

Details of the disposal of the interest in Fujian Jinyi were set out in the announcement of the Company dated 3 April 2009.

The disposal was completed in August 2009.

## PLACING OF EXISTING SHARES AND TOP-UP SUBSCRIPTION OF NEW SHARES

On 11 May 2009, Intense Rise Holdings Limited ("Intense Rise"), a substantial shareholder of the Company and was beneficially wholly-owned by Mr. Wong Hin Shek, entered into a placing and subscription agreement with the Company and Kingston Securities Limited (the "Placing Agent"), under which Intense Rise agreed to place, through the Placing Agent, 35,410,000 existing Shares to independent investors at HK$0.355 per Share and subsequently to subscribe for 35,410,000 new Shares at the subscription price of HK$0.355 per Share. The net proceeds from the subscription of approximately HK$12.21 million were intended to be used for general working capital of the Company. The subscription of Shares were issued on 22 May 2009. Details of the top-up placing and subscription were set out in the announcement of the Company dated 11 May 2009.

## PLACING OF 316,470,000 NEW SHARES

On 26 May 2009, the Company and the Placing Agent entered into a placing agreement pursuant to which the Company agreed to place, through the Placing Agent, on a best efforts basis, a maximum of 316,470,000 new Shares to independent investors at a price of HK$0.20 per Share. The net proceeds from the placing of approximately HK$61.43 million was intended to be used for general working capital of the Company. The specific mandate in respect of the issuance of the placing shares was approved by the shareholders of the Company at the special general meeting held on 25 June 2009 and the placing was completed on 16 July 2009. Details of the placing were set out in the announcement and the circular of the Company dated 12 May 2009 and 9 June 2009 respectively.

## DISPOSAL OF INTEREST IN FORTUNE POINT GROUP

On 20 August 2009, Hua Yi Copper (BVI) Company Limited ("HYC (BVI)"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with the purchaser pursuant to which HYC (BVI) agreed to dispose of and the purchaser agreed to purchase the entire interest of Fortune Point Limited and its subsidiaries (the "Fortune Point Group") held by HYC (BVI) at a consideration of HK$4.5 million. The disposal was completed on 24 August 2009. Details of the disposal were set out in the announcement of the Company dated 20 August 2009.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2009, the Group had approximately 600 employees in Hong Kong and the PRC. The Group's remuneration policy is reviewed periodically and determined by reference to market terms, company performance, and individual qualifications and performance. Staff benefits include medical schemes, Mandatory Provident Fund scheme for Hong Kong employees, and state-sponsored retirement plans for employees in the PRC.

# Directors' Profile

## EXECUTIVE DIRECTORS

*Mr. Wong Hin Shek*, aged 39, has been appointed as the Chairman and executive director of the Company since July 2009. Mr. Wong has extensive experience in finance, operation and strategic investment of listed companies in Hong Kong. He worked in a number of reputable investment banks and the Listing Division of the Stock Exchange. Mr. Wong is also a responsible officer of Veda Capital Limited, a licensed corporation which carries out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance. Mr. Wong holds a Master of Science (Financial Management) degree from University of London in United Kingdom and a Bachelor of Commerce degree from University of Toronto in Canada. Mr. Wong is also the executive director of other listed companies in Hong Kong.

*Mr. Chu Yuk Kuen*, aged 54, joined the Company in April 2003 and is an executive director of the Company. He is responsible for the daily operation and production management of life-like plants. He has more than 17 years' experience in marketing and manufacturing business.

*Mr. Chau Lai Him*, aged 58, has been appointed as the executive director of the Company since August 2004. He has more than 30 years' experience in manufacturing business of cable and wire products and copper products. Mr. Chau is also an executive director of another listed company in Hong Kong.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

*Mr. Chiu Wai On*, aged 39, is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr Chiu possesses 12 years of professional experience in accounting and auditing services. Mr. Chiu is also an independent non-executive director of another listed company in Hong Kong.

*Mr. Man Kwok Leung*, aged 62, is a solicitor of the High Court of Hong Kong and a civil celebrant of marriages. Mr. Man has extensive experience in the legal practice. He had been appointed by Xinhua News Agency as a district advisor from 1995 to 1997. He is currently appointed as a director of Apleichau Kai Fong Primary School, the deputy chairman of Apleichau Kai Fong Welfare Association, the secretary of Apleichau Promotion of Tourism Association and the honorary legal advisor of Junior Police Officers' Association. Mr. Man is also an independent non-executive directors of other listed companies in Hong Kong.

*Dr. Wong Yun Kuen*, aged 51, received his Ph.D. degree from Harvard University, and was "Distinguished Visiting Scholar" at Wharton School of the University of Pennsylvania. Dr. Wong has worked in financial industries in the United States and Hong Kong for more than 10 years, and has considerable experience in corporate finance, investment and derivative products. He is a member of the Hong Kong Securities Institute. Dr. Wong is also an executive director another listed company and an independent non-executive directors in other listed companies in Hong Kong.

## CORPORATE GOVERNANCE PRINCIPLES

The Group is committed to promoting good corporate governance, and has applied the principles in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## COMPLIANCE OF THE CODE PROVISIONS

Throughout the financial year ended 30 June 2009 (the "Financial Year"), the Company has complied with the Code except for the deviation from code provisions A.2.1 and A.4.1 of the Code which is explained below.

### Code provision A.2.1

Under code provision A.2.1 of the Code, the role of the chairman and the chief executive officer should be separated and should not be performed by the same individual.

During the Financial Year, Mr. Chau Lai Him acts as the Chairman and the Managing Director. Mr. Chau is the founder of the Group and has extensive industry experience. Mr. Chau is responsible for effective running of the Board and for formulating business strategies.

Subsequent to the Financial Year, Mr. Wong Hin Shek was appointed as the Chairman and executive Director and Mr. Chu Yuk Kuen, an existing executive Director, was appointed as the Chief Executive Officer in July 2009. Mr. Chau then resigned as the Chairman and the Managing Director but remained as the executive Director. Following the new appointments, the role of the chairman and chief executive officer of the Company was separated and in compliance with the code provision A.2.1.

### Code provision A.4.1

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election.

The existing Independent Non-executive Directors were not appointed for a specific term as required under code provision A.4.1 of the Code but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company has good corporate governance practices.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. The Company has made specific enquiries and all the Directors have confirmed that they have throughout the year complied with the required standards set out therein.

## BOARD OF DIRECTORS

The Board is entrusted with the overall responsibility of managing the Company's business and affairs and the ultimate responsibility of the day-to-day management of the Company which is delegated to the Chairman/Managing Director and the management.

The Board currently comprises a total of six Directors, with three Executive Directors, Messrs Wong Hin Shek (the Chairman), Chu Yuk Kuen (the Chief Executive Officer) and Chau Lai Him and three Independent Non-executive Directors, Messrs. Chiu Wai On and Man Kwok Leung and Dr. Wong Yun Kuen. Save as the co-directorships of Mr. Wong Hin Shek and Dr. Wong Yun Kuen and Mr. Man Kwok Leung in Climax International Company Limited and Mr. Wong Hin Shek and Dr. Wong Yun Kuen in Golden Resorts Group Limited, there is no relationship among the members of the Board. More details of the Directors are disclosed on page 11.

The Board meets regularly throughout the Financial Year. All Directors are given the opportunity to put items on the agenda for regular Board meetings. All Directors have access to the Company Secretary to ensure that all Board procedures and rules and regulations are followed. Full minutes of Board meetings are kept by the Company Secretary and are available for inspection on reasonable notice. Any Director may, in furtherance of his/her duties, take independent professional advice where necessary at the expense of the Company.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

## BOARD OPERATION

During the Financial Year, the Board held 21 meetings and the attendance record of each member of the Board is set out below:

| | **Attendance/eligible to attend** |
|---|---|
| **Executive Directors** | |
| Chau Lai Him | 21/21 |
| Chu Yuk Kuen | 21/21 |
| Chan Kwan Hung (resigned on 4 November 2008) | 3/6 |
| Chan Sio Keong (resigned on 30 April 2009) | 13/13 |

| | **Attendance/eligible to attend** |
|---|---|
| **Independent Non-executive Directors** | |
| Chung Kam Kwong (resigned on 15 June 2009) | 17/19 |
| Lee Kin Keung (resigned on 26 June 2009) | 18/20 |
| Lo Chao Ming (resigned on 30 April 2009) | 10/13 |
| Man Kwok Leung (appointed on 21 May 2009) | 4/4 |
| Chiu Wai On (appointed on 26 June 2009) | 0/0 |
| Wong Yun Kuen (appointed on 26 June 2009) | 0/0 |

## REMUNERATION OF DIRECTORS

The Remuneration Committee of the Company currently comprises three Independent Non-executive Directors, Messrs. Chiu Wai On and Man Kwok Leung and Dr. Wong Yun Kuen. The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, and the making of recommendations to the Board in connection with the remuneration of the Non-executive Directors. The Remuneration Committee should consider factors such as the salaries paid by comparable companies, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee shall meet at least once a year.

## NOMINATION OF DIRECTORS

The Company has not established a Nomination Committee. The Board is responsible for all matters relating to the appointment of Directors either to fill a casual vacancy or as an addition to the existing Board. Any director appointed to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next annual general meeting and shall be eligible for re-election at such meeting. Every director shall be subject to retirement by rotation at least once every three years and shall be eligible for re-election in accordance with the Bye-laws of the Company.

Directors are responsible for identifying suitable qualified candidates and making recommendations to the Board for consideration. The process of selecting and recommending candidates for directorship includes the consideration of referrals and the engagement of external recruitment professionals. The selection criteria is based mainly on the assessment of their professional qualifications and experience relevant to the Company's businesses.

## AUDITORS' REMUNERATION

During the Financial Year, the remuneration of the auditors of the Group, BDO Limited, for the provision of the Group's audit services and non-audit related services was approximately HK$778,000.

## AUDIT COMMITTEE

The Audit Committee of the Company currently comprises three Independent Non-executive Directors, Messrs. Chiu Wai On and Man Kwok Leung and Dr. Wong Yun Kuen and the chairman of the Audit Committee is Mr. Chiu Wai On. The primary duties of the Audit Committee include the reviewing of the Group's financial reporting system, the nature and scope of audit review as well as the effectiveness of the system of internal control procedures and risk management. The Audit Committee is also responsible for making recommendations in relation to the appointment, reappointment and removal of the external auditors, and the reviewing and monitoring of the external auditors' independence and objectivity. In addition, the Audit Committee discusses matters raised by the external auditors and regulatory bodies to ensure that appropriate recommendations are implemented. The Audit Committee shall meet at least twice a year.

## SYSTEM OF INTERNAL CONTROL

The Board ensures the maintenance of sound and effective internal controls to safeguard the shareholder's investment and the assets of the Company. It has been an important duty of the Directors to conduct a review of the effectiveness of the system of internal control of the Group annually or at anytime necessary. The review covers all material controls, including financial, operational and compliance controls, as well as risk management functions. The Board has reached the conclusion that the Group's internal control system was in place and effective.

## GENERAL

The Directors acknowledge their responsibility in preparing the Group's financial statements in accordance with the statutory requirements and applicable accounting standards.

The responsibilities of the auditors with respect to the financial reporting are set out in the Independent Auditors' Report on pages 22 and 23 of this Annual Report.

# Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereafter collectively referred to as the "Group") for the year ended 30 June 2009.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 17 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2009 are set out in the consolidated income statement on page 24.

The Directors resolved not to pay any final dividend for the year ended 30 June 2009.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 90.

## PROPERTY, PLANT AND EQUIPMENT

Details of additions and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

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

## RESERVES

The Company's distributable reserve at 30 June 2009 was HK$Nil (2008: HK$314,783,000).

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

**Executive directors:**

| | |
|---|---|
| Mr. Wong Hin Shek *(Chairman)* | (appointed on 24 July 2009) |
| Mr. Chu Yuk Kuen *(Chief Executive Officer) (Note 1)* | |
| Mr. Chau Lai Him *(Note 2)* | |
| Mr. Chan Kwan Hung | (resigned on 4 November 2008) |
| Mr. Chan Sio Keong | (resigned on 30 April 2009) |

*Note 1:* Mr. Chu Yuk Kuen was appointed as the Chief Executive Officer of the Company with effect from 24 July 2009

*Note 2:* Mr. Chau Lai Him resigned as the Chairman and Managing Director but remains the Executive Director with effect from 24 July 2009.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (continued)

**Independent non-executive directors:**

| | |
|---|---|
| Mr. Man Kwok Leung | (appointed on 21 May 2009) |
| Mr. Chiu Wai On | (appointed on 26 June 2009) |
| Dr. Wong Yun Kuen | (appointed on 26 June 2009) |
| Mr. Lo Chao Ming | (resigned on 30 April 2009) |
| Mr. Chung Kam Kwong | (resigned on 15 June 2009) |
| Mr. Lee Kin Keung | (resigned on 26 June 2009) |

In accordance with bye-law 86(2) of the Bye-laws, Mr. Wong Hin Shek will retire as Director and, being eligible, offer himself for re-election as Director at the forthcoming annual general meeting

In accordance with bye-law 87 of the Bye-laws, Messrs. Chau Lai Him and Man Kwok Leung will retire as Director by rotation and Mr. Man Kwok Leung, being eligible, offer himself for re-election as Director at the forthcoming annual general meeting. Mr. Chau Lai Him will not offer himself for re-election as Director at the forthcoming annual general meeting.

Independent non-executive Directors are not appointed for a specific term and are subject to retirement by rotation in accordance with the above Bye-laws.

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

## DIRECTORS AND THE CHIEF EXECUTIVE'S INTERESTS IN SECURITIES OF THE COMPANY

As at 30 June 2009, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register kept under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

**Long positions in the shares of the Company**

| Name of Director | Capacity in which the shares are held | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Mr. Chu Yuk Kuen | Beneficial owner | 2,810,000 | 0.84% |

Save as disclosed above, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SECURITIES OF THE COMPANY

As at 30 June 2009, the following persons or companies (other than the Directors or the chief executive of the Company) had an interest or short positions in the shares or underlying shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO and were directly or indirectly interest in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group were as follows:

**Long positions in the shares of the Company**

| Name of substantial shareholder | Capacity in which the shares are held | Number of shares held | Percentage of the issued share capital |
|---|---|---|---|
| Intense Rise Holdings Limited (Note) | Beneficial owner | 80,426,375 | 24.07% |

*Note:* These Shares are beneficially owned by Intense Rise Holdings Limited, a company incorporated in the British Virgin Islands, whose entire issued share capital is wholly and beneficially owned by Mr. Wong Hin Shek who was appointed as the chairman of the Board and the executive Director on 24 July 2009. By virtue of the SFO, Mr. Wong Hin Shek is deemed to be interested in the shares held by Intense Rise Holdings Limited.

Save as disclosed above, no person other than the Director or the chief executive of the Company, whose interests are set out in the paragraph headed "Directors' and chief executive's interests in securities of the Company", and Shareholders, whose interests are set out in the paragraph headed "Substantial Shareholders and other persons' interests in securities of the Company" above, had registered an interest or short position in the shares or underlying shares that was required to be recorded pursuant to Section 336 of the SFO.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its ultimate holding company or any of its subsidiaries or fellow 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.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2009, the five largest customers of the Group together accounted for approximately 23% of the Group's total turnover. The five largest suppliers of the Group together accounted for approximately 68% by value of the Group's total purchases during the year, with the largest supplier accounted for approximately 40% of the Group's total purchases during the year.

Save as disclosed under the heading "Connected Transactions", at no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

## SHARE OPTIONS

On 4 December 2003, the Company adopted a new share option scheme (the "Share Option Scheme") which replaced its old share option scheme adopted in 1996. Particulars of these share option schemes are set out in note 38 to the consolidated financial statements.

The following table discloses movements in the Company's Share Option Scheme during the year:

**For the year ended 30 June 2009**

| | | | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Capacity | Date of grant | Exercise period | Exercise price *HK$* | Outstanding at 1.7.2008 | Granted during the year | Exercised during the year | Lapsed during the year | Cancelled during the year | Outstanding at 30.6.2009 |
| Employees | 9 December 2005 | 1 January 2006 to 31 December 2008 | 0.275 | 336,000 | – | – | – | (336,000) | – |
| Others | 9 December 2005 | 1 January 2006 to 31 December 2008 | 0.275 | 4,000,000 | – | – | (4,000,000) | – | – |
| Others | 6 April 2006 | 1 May 2006 to 30 April 2011 | 0.495 | 30,600,000 | – | – | (30,600,000) | – | – |
| Directors | | | | | | | | | |
| – Mr. Chan Kwan Hung | 5 November 2007 | 1 February 2008 to 31 January 2011 | 0.910 | 4,500,000 | – | – | – | (4,500,000) | – |
| – Mr. Chan Sio Keong | 5 November 2007 | 1 February 2008 to 31 January 2011 | 0.910 | 3,000,000 | – | – | – | (3,000,000) | – |
| Employees | 5 November 2007 | 1 February 2008 to 31 January 2011 | 0.910 | 10,200,000 | – | – | – | (10,200,000) | – |
| Others | 5 November 2007 | 1 August 2008 to 31 July 2011 | 0.910 | 15,000,000 | – | – | (15,000,000) | – | – |
| Director | | | | | | | | | |
| – Mr. Chu Yuk Kuen | 19 May 2009 | 20 May 2009 to 19 May 2012 | 0.421 *(Note)* | – | 2,810,000 | (2,810,000) | – | – | – |
| Employees and others | 19 May 2009 | 20 May 2009 to 19 May 2012 | 0.421 *(Note)* | – | 14,890,000 | (14,890,000) | – | – | – |
| | | | | 67,636,000 | 17,700,000 | (17,700,000) | (49,600,000) | (18,036,000) | – |

*Note:* The closing price of the Shares on the Stock Exchange on the date of grant was HK$0.40 and the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of grant was HK$0.421.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme as mentioned earlier, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

## DISCLOSURE OF INFORMATION ON DIRECTORS PURSUANT TO RULE 17.51B(1) OF THE LISTING RULES

The updated information on Directors discloseable under Rule 17.51B(1) of the Listing Rules is as follows:

1. Mr. Wong Hin Shek, the chairman of the Board and the executive Director, resigned as executive director of China Public Procurement Limited, a company listed on the main board of the Stock Exchange, on 22 September 2009.

2. Dr. Wong Yun Kuen, the independent non-executive Director, resigned as director of Grand Field Group Holdings Limited, a company listed on the main board of the Stock Exchange, on 4 September 2009.

## CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "CG Code"), except that there are no fixed terms for the appointment of independent non-executive Directors as required under code provision A.4.1 of the CG Code. Details are set out in the Corporate Governance Report on pages 12 to 15.

The Company has adopted the Model Code for Securities Transactions by Directors set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, all the Directors confirmed they have complied with the required standards set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the year ended 30 June 2009.

Following the resignation of Mr. Lo Chao Ming on 30 April 2009 and up to 21 May 2009, the date on which Mr. Man Kwok Leung was appointed as an independent non-executive Director and a member of the audit committee of the Company, the number of the independent non-executive Directors and audit committee members of the Company fell below the minimum number required under rule 3.10(1) and 3.21 of the Listing Rules respectively.

Following the resignation of Mr. Chung Kam Kwong on 15 June 2009 up to 26 June 2009, the date on which Dr. Wong Yun Kuen was appointed as an independent non-executive Director and a member of the audit committee of the Company, the number of the independent non-executive Directors and audit committee members of the Company fell below the minimum number required under rule 3.10(1) and 3.21 of the Listing Rules respectively.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

## AUDIT COMMITTEE

The Audit Committee comprises the three independent non-executive Directors. The Audit Committee has adopted terms of reference which are in line with the code provisions of the CG Code. The Audit Committee has reviewed the audited results for the year ended 30 June 2009 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Group's internal control procedure and financial reporting disclosures.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises the three independent non-executive Directors. It has adopted terms of reference which are in line with the code provisions of the CG Code. The duties of the Remuneration Committee include reviewing and evaluating the remuneration packages of executive directors and senior management and making recommendations to the Board from time to time.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 30 June 2009.

## PRE-EMPTIVE RIGHTS

There are no provisions for the exercise of any pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results and individual performance.

The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 38 to the consolidated financial statements.

## AUDITORS

BDO Limited shall retire and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Wong Hin Shek**
*Chairman and Executive Director*

Hong Kong, 12 October 2009

# Independent Auditors' Report

**BDO Limited**
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
Telefax: (852) 2815 2239

德豪會計師事務所有限公司
執業會計師
香港干諾道中一百一十一號
永安中心二十五樓
電話:(八五二)二五四一 五〇四一
傳真:(八五二)二八一五 二二三九

**TO THE SHAREHOLDERS OF HUA YI COPPER HOLDINGS LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements of Hua Yi Copper Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 89, which comprise the consolidated and company balance sheets as at 30 June 2009, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of the financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

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

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

## AUDITORS' RESPONSIBILITY (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2009 and of the loss and cash flows of the Group 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*

**Chan Kam Wing, Clement**
Practising Certificate number P02038

Hong Kong, 12 October 2009

# Consolidated Income Statement

For the year ended 30 June 2009

| | NOTES | Continuing operations 2009 HK$'000 | Continuing operations 2008 HK$'000 | Discontinued operations 2009 HK$'000 | Discontinued operations 2008 HK$'000 | Total 2009 HK$'000 | Total 2008 HK$'000 |
|---|---|---|---|---|---|---|---|
| Turnover | 6 | 1,089,318 | 2,968,984 | 107,958 | 106,937 | 1,197,276 | 3,075,921 |
| Cost of sales | | (1,323,985) | (2,902,092) | (104,909) | (91,816) | (1,428,894) | (2,993,908) |
| Gross (loss)/profit | | (234,667) | 66,892 | 3,049 | 15,121 | (231,618) | 82,013 |
| Interest income | | 4,485 | 11,848 | 286 | 346 | 4,771 | 12,194 |
| Other income | | 6,131 | 16,342 | 43 | 807 | 6,174 | 17,149 |
| General and administrative expenses | | (43,656) | (52,897) | (6,052) | (14,773) | (49,708) | (67,670) |
| Selling and distribution expenses | | (2,324) | (3,135) | (2,621) | (2,757) | (4,945) | (5,892) |
| Finance costs | 9 | (21,320) | (42,624) | (4,280) | (3,521) | (25,600) | (46,145) |
| Share of results of a jointly-controlled entity | 18 | (3,129) | (2,078) | – | – | (3,129) | (2,078) |
| Gain on asset swap | 32 | 53,505 | – | – | – | 53,505 | – |
| Gains on deemed disposal of a jointly-controlled entity and disposal of available-for-sale investment, net | 18 | 7,237 | – | – | – | 7,237 | – |
| Impairment loss on intangible asset | 16 | (102,917) | – | – | – | (102,917) | – |
| Impairment loss on property, plant and equipment | 14 | (19,621) | – | – | – | (19,621) | – |
| Change in fair value of derivative financial instruments | 24 | 434 | 32,737 | – | – | 434 | 32,737 |
| Change in fair value of convertible note designated as at fair value through profit or loss and loss on disposal of assets classified as held for sale and associated liabilities | 19,31 | 31,233 | – | (26,512) | – | 4,721 | – |
| (Loss)/profit before taxation | 7 | (324,609) | 27,085 | (36,087) | (4,777) | (360,696) | 22,308 |
| Taxation | 10 | 35,360 | (11,272) | – | (82) | 35,360 | (11,354) |
| (Loss)/profit for the year | | (289,249) | 15,813 | (36,087) | (4,859) | (325,336) | 10,954 |
| (Loss)/profit for the year attributable to: | | | | | | | |
| Equity holders of Company | 11 | (286,516) | 15,522 | (36,087) | (4,859) | (322,603) | 10,663 |
| Minority interests | | (2,733) | 291 | – | – | (2,733) | 291 |
| | | (289,249) | 15,813 | (36,087) | (4,859) | (325,336) | 10,954 |
| Dividend | 12 | – | – | – | – | – | – |
| | | | | | | | (Restated) |
| (Loss)/earnings per share from continuing and discontinued operations | 13 | | | | | | |
| – Basic | | | | | | (140.96) HK cents | 6.89 HK cents |
| – Diluted | | | | | | (140.96) HK cents | 6.78 HK cents |
| from continuing operations | 13 | | | | | | |
| – Basic | | | | | | (125.19) HK cents | 10.03 HK cents |
| – Diluted | | | | | | (125.19) HK cents | 9.87 HK cents |

The accompanying notes form part of these financial statements.

# Consolidated Balance Sheet

At 30 June 2009

| | NOTES | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **261,837** | 210,028 |
| Prepayments for acquisition of property, plant and equipment | 14 | **14,000** | – |
| Prepaid lease payments for land – non-current portion | 15 | **14,241** | 63,217 |
| Intangible asset | 16 | **55,128** | 158,467 |
| Interest in a jointly-controlled entity | 18 | **–** | 18,057 |
| Convertible note designated as at fair value through profit or loss | 19 | **46,753** | – |
| Loans receivable, secured | 23 | **21,198** | – |
| | | **413,157** | 449,769 |
| **Current assets** | | | |
| Inventories | 20 | **21,179** | 330,074 |
| Debtors, other receivables, deposits and prepayments | 21 | **38,092** | 357,648 |
| Loans receivable, secured | 23 | **14,702** | 100,477 |
| Bills receivable | 22 | **1,739** | 29,634 |
| Prepaid lease payments for land – current portion | 15 | **365** | 1,734 |
| Derivative financial assets | 24 | **–** | 625 |
| Tax recoverable | | **–** | 642 |
| Pledged deposits | 36, 39 | **–** | 26,268 |
| Bank balances and cash | 39 | **89,000** | 147,397 |
| | | **165,077** | 994,499 |
| Assets classified as held for sale | 31 | **–** | 102,053 |
| | | **165,077** | 1,096,552 |
| **Current liabilities** | | | |
| Creditors, other advances and accruals | 25 | **54,965** | 58,305 |
| Bills payable | 26 | **–** | 76,963 |
| Borrowings | 27 | **96,940** | 599,278 |
| Taxation | | **2,049** | 6,682 |
| Derivative financial liabilities | 24 | **–** | 372 |
| | | **153,954** | 741,600 |
| Liabilities associated with assets classified as held for sale | 31 | **–** | 43,405 |
| | | **153,954** | 785,005 |
| **Net current assets** | | **11,123** | 311,547 |
| **Total assets less current liabilities** | | **424,280** | 761,316 |

# Consolidated Balance Sheet

At 30 June 2009

| | NOTES | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Borrowings | 27 | **11,364** | – |
| Deferred tax liabilities | 28 | **15,790** | 54,143 |
| | | **27,154** | 54,143 |
| **Net assets** | | **397,126** | 707,173 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 29 | **16,709** | 177,061 |
| Reserves | | **380,417** | 527,376 |
| Equity attributable to equity holders of the Company | | **397,126** | 704,437 |
| Minority interest | | **–** | 2,736 |
| **Total equity** | | **397,126** | 707,173 |

These consolidated financial statements were approved and authorised for issue by the board of directors on 12 October 2009 and are signed on its behalf by:

**Chu Yuk Kuen**
*Director*

**Chau Lai Him**
*Director*

The accompanying notes form part of these financial statements.

# Balance Sheet

At 30 June 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | *17* | **137,731** | 502,203 |
| **Current assets** | | | |
| Deposits and prepayments | | **113** | 132 |
| Bank balances and cash | *39* | **21,136** | 164 |
| | | **21,249** | 296 |
| **Current liabilities** | | | |
| Accrued charges | | **317** | 29 |
| Amounts due to subsidiaries | *17* | **176** | – |
| | | **493** | 29 |
| **Net current assets** | | **20,756** | 267 |
| | | **158,487** | 502,470 |
| **Capital and reserves** | | | |
| Share capital | *29* | **16,709** | 177,061 |
| Reserves | *30* | **141,778** | 325,409 |
| | | **158,487** | 502,470 |

These financial statements were approved and authorised for issue by the board of directors on 12 October 2009 and are signed on its behalf by:

**Chu Yuk Kuen**
*Director*

**Chau Lai Him**
*Director*

The accompanying notes form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2009

| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 (Note (a)) | Exchange reserve HK$'000 (Note (b)) | Statutory reserve fund HK$'000 (Note (c)) | Special reserve HK$'000 (Note (d)) | Share option reserve HK$'000 (Note (e)) | (Accumulated losses)/ retained profits HK$'000 | Total attributable to the equity holders of the Company HK$'000 | Minority interest HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 July 2007 | 134,627 | 981 | 172,724 | 18,868 | – | (43,246) | 4,128 | 192,973 | 481,055 | – | 481,055 |
| Exchange differences arising on translation of foreign operations and share of reserve of a jointly-controlled entity and total income recognised directly in equity | – | – | – | 38,602 | – | – | – | – | 38,602 | 71 | 38,673 |
| Profit for the year | – | – | – | – | – | – | – | 10,663 | 10,663 | 291 | 10,954 |
| Total recognised income and expense for the year | – | – | – | 38,602 | – | – | – | 10,663 | 49,265 | 362 | 49,627 |
| Issue of new shares *(Note 29)* | 22,000 | 87,561 | – | – | – | – | – | – | 109,561 | – | 109,561 |
| Issue of shares upon exercise of share options *(Note 29)* | 434 | 163 | – | – | – | – | – | – | 597 | – | 597 |
| Transfer upon exercise of share options *(Note 29)* | – | 186 | – | – | – | – | (186) | – | – | – | – |
| Recognition of equity-settled expense – share-based payments *(Note 38)* | – | – | – | – | – | – | 7,959 | – | 7,959 | – | 7,959 |
| Appropriation | – | – | – | – | 14,005 | – | – | (14,005) | – | – | – |
| Acquisition of subsidiaries *(Note 33)* | 20,000 | 36,000 | – | – | – | – | – | – | 56,000 | 2,374 | 58,374 |
| Forfeiture of share options | – | – | – | – | – | – | (1,275) | 1,275 | – | – | – |
| At 30 June 2008 | 177,061 | 124,891 | 172,724 | 57,470 | 14,005 | (43,246) | 10,626 | 190,906 | 704,437 | 2,736 | 707,173 |
| Exchange differences arising on translation of foreign operations and share of reserve of a jointly-controlled entity and total income recognised directly in equity | – | – | – | (1,748) | – | – | – | – | (1,748) | (3) | (1,751) |
| Release upon deemed disposal of a jointly-controlled entity *(Note 18)* | – | – | – | (3,044) | – | – | – | – | (3,044) | – | (3,044) |
| Release upon asset swap *(Note 32)* | – | – | – | (32,921) | – | – | – | – | (32,921) | – | (32,921) |
| Loss for the year | – | – | – | – | – | – | – | (322,603) | (322,603) | (2,733) | (325,336) |
| Total recognised income and expense for the year | – | – | – | (37,713) | – | – | – | (322,603) | (360,316) | (2,736) | (363,052) |
| Capital reorganisation *(Note 29)* | (168,208) | – | 168,208 | – | – | – | – | – | – | – | – |
| Issue of new shares *(Note 29)* | 6,971 | 35,162 | – | – | – | – | – | – | 42,133 | – | 42,133 |
| Issue of shares upon exercise of share options *(Note 29)* | 885 | 6,567 | – | – | – | – | – | – | 7,452 | – | 7,452 |
| Recognition of equity-settled expense – share-based payments *(Note 38)* | – | – | – | – | – | – | 3,420 | – | 3,420 | – | 3,420 |
| Transfer upon exercise of share options *(Note 29)* | – | 3,420 | – | – | – | – | (3,420) | – | – | – | – |
| Cancellation and lapse of share options | – | – | – | – | – | – | (10,626) | 10,626 | – | – | – |
| At 30 June 2009 | 16,709 | 170,040 | 340,932 | 19,757 | 14,005 | (43,246) | – | (121,071) | 397,126 | – | 397,126 |

*Notes:*

(a) In prior years, the Group undertook a capital reorganisation resulting in eliminating the share premium account of the Company as at 30 September 2005 of HK$260,881,000 against the accumulated losses as at 30 September 2005 of HK$88,157,000 with the remaining balance of HK$172,724,000 credited to contributed surplus of the Company.

During the current year, the Group undertook a capital reorganisation resulting in eliminating the share capital of the Company of HK$168,208,000 which was credited to the contributed surplus of the Company.

(b) The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and share of reserve of a jointly-controlled entity.

(c) According to articles of association of the Group's subsidiary operating in the People's Republic of China (the "PRC"), the subsidiary is required to transfer 10% of its net profit as determined in accordance with the PRC Accounting Rules and Regulations to its statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividend to equity holders of the PRC subsidiary.

(d) The special reserve arose from the business combination carried out by the Company in 2004, which was accounted for as a reverse acquisition. The details of the transaction were set out in the circular of the Company dated 14 June 2004.

(e) The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to the eligible parties.

The accompanying notes form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 30 June 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before taxation | | **(360,696)** | 22,308 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 7 | **22,819** | 16,148 |
| Amortisation of intangible asset | 7 | **422** | 364 |
| Charge of prepaid lease payments for land | 7 | **1,125** | 1,528 |
| Impairment loss on prepaid lease payments for land | 7 | **488** | – |
| Impairment loss on property, plant and equipment | | **19,621** | – |
| Impairment loss on intangible asset | | **102,917** | – |
| Equity-settled share-based payments | 7 | **3,420** | 7,959 |
| Change in fair value of derivative financial instruments | | **(434)** | (32,737) |
| Change in fair value of convertible notes | | **(31,233)** | – |
| Allowance for doubtful debts | 7 | **364** | – |
| Bad debts written off | 7 | **3,452** | – |
| Gain on disposal of property, plant and equipment, net | 7 | **(4)** | – |
| Gain on asset swap | | **(53,505)** | – |
| Gains on deemed disposal of a jointly-controlled entity and disposal of available-for-sale investment, net | | **(7,237)** | – |
| Loss on disposal of assets held for sale | | **26,512** | – |
| Interest income | | **(4,485)** | (11,848) |
| Finance costs | 9 | **21,320** | 42,624 |
| Share of results of a jointly-controlled entity | | **3,129** | 2,078 |
| Operating cash flows before movements in working capital | | **(252,005)** | 48,424 |
| Decrease/(increase) in inventories | | **300,418** | (24,858) |
| Decrease in debtors, other receivables, deposits and prepayments | | **178,445** | 47,570 |
| Decrease/(increase) in bills receivable | | **9,471** | (11,902) |
| Decrease in creditors, other advances and accruals | | **(8,220)** | (39,278) |
| Decrease in bills payable | | **(1,963)** | (65,147) |
| Decrease in derivative financial instruments | | **687** | 32,773 |
| Net cash generated from/(used in) operating activities of assets and liabilities held for sale | | **7,776** | (1,184) |
| **Cash generated from/(used in) operations** | | **234,609** | (13,602) |
| Hong Kong profits tax refunded/(paid) | | **6,024** | (11,595) |
| Taxation in Mainland China | | **(562)** | (2,141) |
| **Net cash generated from/(used in) operating activities** | | **240,071** | (27,338) |

# Consolidated Cash Flow Statement

For the year ended 30 June 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Interest received | | 1,439 | 11,848 |
| Loans repaid by/(advanced to) third parties | | 23,166 | (53,579) |
| Net proceeds on disposal of a jointly-controlled entity | 18 | 19,121 | – |
| Purchases of property, plant and equipment | | (11,305) | (3,730) |
| Proceeds on disposal of property, plant and equipment | | 2,479 | 4,064 |
| Direct costs incurred for disposal of subsidiaries | 32 | (1,497) | – |
| Additions of prepaid lease payments for land | | – | (4,260) |
| Net cash outflow arising from acquisition of subsidiaries | 33 | – | (65,812) |
| Settlement of promissory note receivable | | 13,445 | – |
| Net cash outflow arising from the asset swap | 32 | (62,682) | – |
| Net cash outflow arising from the disposal of assets and liabilities held for sale | 31 | (7,187) | – |
| Net cash used in investing activities of assets and liabilities held for sale | | – | (661) |
| **Net cash used in investing activities** | | (23,021) | (112,130) |
| **Financing activities** | | | |
| Interest paid on borrowings | | (18,625) | (42,602) |
| Interest paid on finance leases | | – | (22) |
| Repayment of obligations under finance leases | | – | (466) |
| Net proceeds from issue of shares | | 49,585 | 110,158 |
| New borrowings raised | | 677,672 | 1,956,934 |
| Repayment of borrowings | | (978,987) | (1,958,792) |
| (Increase)/decrease in pledged deposits | | (1,283) | 46,315 |
| Net cash generated from/(used in) financing activities of assets and liabilities held for sale | | 750 | (284) |
| **Net cash (used in)/generated from financing activities** | | (270,888) | 111,241 |
| **Net decrease in cash and cash equivalents** | | (53,838) | (28,227) |
| Effect of foreign exchange rate changes | | (6,391) | 15,596 |
| **Cash and cash equivalents at beginning of the year** | | 149,229 | 161,860 |
| **Cash and cash equivalents at end of the year** | | 89,000 | 149,229 |
| **Analysis of the balances of cash and cash equivalents** | | | |
| Bank balances and cash | | 89,000 | 147,397 |
| Bank balances and cash attributable to assets classified as held for sale | | – | 1,832 |
| | | 89,000 | 149,229 |

The accompanying notes form part of these financial statements.

## 1. ORGANISATION AND OPERATIONS

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in Corporate Information in the annual report.

The Company is an investment holding company. The activities of the Company's subsidiaries and jointly-controlled entity are set out in Notes 17 and 18 respectively. During the year, the Group's interest in a jointly-controlled entity and life-like plants and production business were entirely disposed of, further details of which are set out in Note 18 and 31 respectively. There is also an asset swap arrangement during the year, further details of which is set out in Note 32.

In prior years, the directors regarded Hong Kong dollar as the functional currency of the Company. During the year, the directors reassessed the Company's functional currency after the asset swap in February 2009. The directors considered that the functional currency of the Company should be changed from Hong Kong dollar to Renminbi after the asset swap. The change of functional currency is applied prospectively from the date of change in accordance with HKAS 21 'The Effect of Change in Foreign Exchange Rates'. As the Company is listed on the Main Board of the Stock Exchanges of Hong Kong, the directors consider that it will be more appropriate to adopt Hong Kong dollar as the Group's and the Company's presentation currency. All values are rounded to the nearest thousand except where otherwise indicated.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which in collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The adoption of HK(IFRIC) – Int 12 "Service concession arrangements", HK(IFRIC) – Int 13 "Customer Loyalty Programmes", HK(IFRIC) – Int 14 "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction", HK(IFRIC) – Int 9 & HKAS 39 Amendments "Embedded Derivatives" and HKAS 39 & HKFRS 7 Amendments "Reclassification of financial assets" has no impact on these financial statements.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

At the date of approval of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

| | | Effective date |
|---|---|---|
| HKAS 1 (Revised) | Presentation of financial statements | (i) |
| HKAS 23 (Revised) | Borrowing costs | (i) |
| HKAS 32 & HKAS 1 (Amendments) | Puttable financial instruments and obligations arising on liquidation | (i) |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an investment in a subsidiary, jointly controlled entity or associate | (i) |
| HKFRS 8 | Operating segments | (i) |
| HK(IFRIC) – Int 15 | Agreements for the construction of real estates | (i) |
| HKFRS 2 (Amendment) | Vesting conditions and cancellations | (i) |
| HKFRS 2 (Amendment) | Group Cash – Settled Share-based Payment Transaction | (v) |
| HKFRS 7 (Amendment) | Improving disclosures about financial instruments | (i) |
| HKAS 27 (Revised) | Consolidated and separate financial statements | (ii) |
| HKAS 39 (Amendment) | Eligible hedged items | (ii) |
| HKFRS 1 (Revised) | First-time adoption of HKFRSs | (ii) |
| HKFRS 1 (Amendments) | Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters | (v) |
| HKFRS 3 (Revised) | Business combinations | (ii) |
| HK(IFRIC) – Int 17 | Distributions of non-cash assets to owners | (ii) |
| HK(IFRIC) – Int 16 | Hedges of a net investment in a foreign operation | (iii) |
| HK(IFRIC) – Int 18 | Transfers of assets from customers | (iv) |
| 2008 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement | – HKAS 1, HKAS 16, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 36, HKAS 38, HKAS 39, HKAS 40 & HKAS 41 | (i) |
| | – HKFRS 5 | (ii) |
| 2009 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement | – HKAS 39 (80) | (i) |
| | – HKAS 38, HKFRS 2, HK(IFRIC) – Int 9, HK(IFRIC) – Int 16 | (ii) |
| | – HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 39, HKFRS 5, HKFRS 8 | (v) |

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

*Effective date*

*(i) Annual periods beginning on or after 1 January 2009*
*(ii) Annual periods beginning on or after 1 July 2009*
*(iii) Annual periods beginning on or after 1 October 2008*
*(iv) Transfers of assets from customers received on or after 1 July 2009*
*(v) Annual periods beginning on or after 1 January 2010*

The Group is in the process of making an assessment of what the impact of these new or revised Standards or Interpretations is expected to be in the period of their initial application.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

These financial statements have been prepared in accordance with all applicable HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

**Basis of preparation of financial statements**

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

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions, balances, income, expenses and unrealised gains on transaction between group enterprises are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

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.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Business combinations**

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale, which are recognised and measured at fair value less costs to sell.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**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.

Interests in subsidiaries are included in the Company's balance sheet at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Joint ventures**

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly-controlled entities. Joint control exists when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

The results and assets and liabilities of jointly-controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in jointly-controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly-controlled entity, less any identified impairment losses. When the Group's share of losses of a jointly-controlled entity equals or exceeds its interest in that jointly-controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly-controlled entity.

When a group entity transacts with a jointly-controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly-controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable for goods sold and services provided in the normal course of business, net of returns, discounts and other similar allowances and excludes value-added tax or other sales related taxes.

(i) Sales of goods are recognised when goods are delivered and title has passed.

(ii) Interest income from a financial asset is accrued on a time-apportioned basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(iii) Rental income from operating leases is recognised in equal instalments over the accounting periods covered by the lease term.

(iv) Revenue for providing services is recognised when the services have been rendered.

**Property, plant and equipment**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

Buildings are depreciated over the shorter of the term of the lease or fifty years using the straight-line method.

Leasehold improvements are depreciated over the shorter of the remaining term of the lease or at 5% per annum using the straight-line method.

Depreciation is provided to write off the cost of property, plant and equipment other than properties under construction, over their estimated useful lives, using the reducing balance method, at the following rates per annum:

| | |
|---|---|
| Equipment, furniture and fixtures | 6.67% – 30% |
| Plant and machinery (including mining-related machinery and equipment) | 6.67% – 20% |
| Motor vehicles | 12.5% – 30% |

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment losses. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

**Prepaid lease payments for land**

Prepaid lease payments for land are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments for land are amortised on a straight-line basis over the respective terms of the land use rights.

**Deferred overburden removal costs**

Stripping ratios are determined by comparing the quantity of iron-ore concentrated powder mined to the quantity of overburden, or waste removed to access the iron-ore concentrated powder. Costs are deferred to the consolidated balance sheet, where appropriate, when the actual stripping ratios vary from the planned mine average stripping ratios. Deferral of costs to the balance sheet is not made where the actual stripping ratio is expected to be evenly distributed. Costs, which have previously been deferred to the balance sheet (deferred overburden removal costs), are included in the income statement on the units of production basis utilising average stripping ratios. Changes in estimates of average stripping ratios are accounted for prospectively from the date of the change.

**Intangible assets**

*Mining right*

Mining right is stated at cost less accumulated amortisation and any impairment losses and is amortised on the units of production method utilising only proven and probable iron-ore reserves in the depletion base.

*Exploration and evaluation assets*

Exploration and evaluation assets comprise costs which are directly attributable to: researching and analysing existing exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling pre-feasibility and feasibility studies. Exploration and evaluation assets also include the costs incurred in acquiring mining rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

During the initial stage of a project, exploration and evaluation costs are expensed as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised as exploration and evaluation assets and not amortised, and transferred to mining rights if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are expensed in the income statement. Exploration and evaluation assets are stated at cost less impairment losses, if any.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Intangible assets (continued)**

*Impairment of exploration and evaluation assets*

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment in accordance with HKAS 36 "Impairment of Assets" whenever one of the following events or changes in circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

– the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

– substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

– exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

– sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

**Impairment of assets**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses (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, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss in profit and loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, including an appropriate portion of fixed and variable overhead expenses, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

### Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which 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 each balance sheet date 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 and a jointly-controlled entity, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessee. Assets held under finance leases are capitalised at their fair values at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the consolidated income statement on a straight line basis over the relevant lease terms.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised as profit or loss in the period in which they arise. Exchange differences arising on the translation of non-monetary items carried at fair value are included as profit or loss.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised as profit or loss in the period in which the foreign operation is disposed of.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments**

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets and financial liabilities as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised in profit or loss.

*Financial assets*

Financial assets at fair value through profit or loss

Convertible note designated as at fair value through profit or loss is classified as at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in the consolidated income statement incorporates any dividend or interest earned on the financial assets.

Loans and receivables

The Group's non-derivative financial assets mainly include loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors, other receivables, loans receivable, bills receivable and bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Impairment of financial assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. 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 all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

*Financial assets (continued)*

Loans and receivables (continued)

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

For loans and other receivables carried at amortised cost, 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 would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other 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 and other 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 account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

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 other than those financial assets designated as at fair value through profit or loss.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by an entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

*Financial liabilities and equity (continued)*

Borrowings

Bank borrowings are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the terms of the borrowings.

Other financial liabilities

Other financial liabilities including creditors, other advances and bills payable are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivatives not qualified for hedging

Derivatives that do not qualify for hedge accounting are deemed as financial assets/financial liabilities held for trading and are measured at fair value with fair value changes recognised in profit or loss except for derivative instruments which are linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured and such derivative instruments are stated at cost less any impairment losses, if applicable.

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

**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 balance sheet date, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Provisions (continued)**

*Provision for close down, restoration and environmental costs*

One consequence of iron-ore mining is land subsidence caused by the resettlement of the land at the mining sites. Depending on the circumstances, the Group may relocate inhabitants from the mining sites prior to conducting mining activities or the Group may compensate the inhabitants for losses or damage from close down and land subsidence after the sites have been mined. The Group may also be required to make payments for restoration, rehabilitation or environmental protection of the land after the sites have been mined.

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during mine development or during the production phase, based on the net present value of estimated future costs. The cost is capitalised where it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of close down. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision is included in borrowing costs. Where there is a change in the expected decommissioning and restoration costs, an adjustment is recorded against the carrying amount of the provision and related assets, and the effect is then recognised in the income statement on a prospective basis over the remaining life of the operation. Provision for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The cost estimates are reviewed and revised at each balance sheet date to reflect changes in conditions.

**Share-based payment transactions**

*Equity-settled share-based payment transactions*

Share options granted to employees of the Company and others providing similar services

The fair value of share options has been recognised in the consolidated income statement as share-based payments.

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Share options granted to others

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received unless that fair value cannot be estimated reliably, in which case, the fair value is estimated by reference to the fair value of the share options. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to share option reserve.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**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.

**Employees' benefits**

*Short term benefits*

Salaries, annual bonuses, paid annual leaves and other allowances 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.

*Defined contribution pension obligations*

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees. The Group has no further payment obligations once the contributions have been made.

**Related parties**

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not equal to the actual results. The key estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as below.

**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 condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management will reassess the estimations at each balance sheet date.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

**Depreciation of property, plant and equipment**

Property, plant and equipment is depreciated on a straight-line basis and reducing balance method over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and the estimated residual values, if any, of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

**Income taxes**

The Group is subject to income taxes in Hong Kong and PRC jurisdictions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. 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.

**Reserve estimates and impairment of mining right**

Reserves are estimates of the amount of products that can be economically and legally extracted from the Group's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgments and calculations to interpret the data.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

(i) Asset carrying values may be affected due to changes in estimated future cash flows.

(ii) Depreciation, depletion and amortisation charged in the consolidated income statement may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

(iii) Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

(iv) The carrying value of deferred tax may change as a result of changes in the asset carrying values as discussed above.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

**Provision for close down, restoration and environmental costs**

The provision for close down, restoration and environmental costs is determined by management based on their past experience and best estimation of future expenditures, after taking into account existing relevant PRC regulations. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future years, the estimate of the associated costs may be subject to revision from time to time.

## 5. FINANCIAL RISK MANAGEMENT

### a. Financial risk management objectives and policies

The Group's major financial instruments include debtors, other receivables, loans receivable, derivative financial assets and liabilities, pledged deposits, bank balances, creditors, bills payable, and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Foreign currency risk*

Most of the Group's assets and liabilities are denominated in Hong Kong dollars, United States dollars and Renminbi, which are the functional currencies of respective group companies. There is also no significant exposure arising from exchange forward contracts. The Group does not expect any significant exposure to foreign currency risks.

*Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk is significantly reduced.

Except for loans receivable from third parties, the Group has no significant concentration of credit risk with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparts are banks with high credit-ratings assigned by international credit-rating agencies.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade debtors are set out in Note 21.

## 5. FINANCIAL RISK MANAGEMENT (continued)

### a. Financial risk management objectives and policies (continued)

*Interest rate risk*

Cash flow interest rate risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of the financial instruments will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk which relates primarily to the Group's floating-rate bank borrowings and the details of borrowings are disclosed in Note 27. Management closely monitors cash flow interest rate risk and will consider hedging significant interest rate exposure should the need arise.

The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 27.

At 30 June 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss after taxation and accumulated losses by HK$5,294,000 (2008: decrease/increase the profit and retained profits by HK$5,992,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2008.

*Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

## 5. FINANCIAL RISK MANAGEMENT (continued)

### a. Financial risk management objectives and policies (continued)

*Liquidity risk (continued)*

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay.

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | More than 5 years HK$'000 |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| Borrowings | 108,304 | 110,799 | 96,940 | – | 13,859 | – |
| Creditors, other advances and accruals, and bills payable | 54,965 | 54,965 | 54,965 | – | – | – |
| | 163,269 | 165,764 | 151,905 | – | 13,859 | – |
| Derivative financial liabilities | – | – | – | – | – | – |
| | – | – | – | – | – | – |
| **2008** | | | | | | |
| Borrowings and bank overdrafts | 599,278 | 613,318 | 613,318 | – | – | – |
| Creditors, other advances and accruals, and bills payable | 135,268 | 135,268 | 135,268 | – | – | – |
| | 734,546 | 748,586 | 748,586 | – | – | – |
| Derivative financial liabilities | 372 | 372 | 372 | – | – | – |
| | 372 | 372 | 372 | – | – | – |

*Copper price risk*

The Group is exposed to price risk of copper rods, which are the major raw materials for the production process. To mitigate the copper price risk, the Group has entered into copper futures contracts to hedge against the fluctuations of copper price. Details of the copper futures contracts outstanding at balance sheet date are set out in Note 24.

## 5. FINANCIAL RISK MANAGEMENT (continued)

### a. Financial risk management objectives and policies (continued)

*Copper price risk (continued)*

At 30 June 2008, it was estimated that a general increase/decrease of 10% in copper futures contract price, with all other variables held constant, would decrease/increase the Group's profit after taxation and retained profits by HK$4,976,000 in respect of the instruments outstanding throughout the last year. At 30 June 2009, the Group has no outstanding copper futures contract as detailed in Note 24.

The sensitivity analysis above has been determined assuming that the change in copper futures contract price had occurred at the balance sheet date and had been applied to the exposure to copper futures contract price risk for both derivative and non-derivative financial instruments in existence at that date. The 10% increase or decrease represents management's assessment of a reasonably possible change in copper futures contract price over the period until the next annual balance sheet date.

### b. Fair value

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

– the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

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

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their corresponding fair values.

## 6. TURNOVER AND SEGMENTAL INFORMATION

Turnover, which is also revenue, represents the amounts received and receivable for goods sold to outside customers, net of returns and discounts and sales related taxes during the year.

**Business segments**

For management purposes, the Group has five principal operating divisions – (i) manufacture and trading of copper rods; (ii) iron-ore mining, manufacture and sale of iron-ore concentrated powder; (iii) manufacture and sale of cable and wires; (iv) manufacturing and trading of life-like plants; and (v) production, distribution and licensing of television programmes.

Segment information about these businesses is presented below as primary segment information.

On 21 May 2007, the Company announced a plan to dispose of its business of manufacture and trading of life-like plants based on a conditional sale and purchase agreement dated 19 May 2007. Accordingly, the business segment of manufacture and trading of life-like plants (the "Life-like Plants Operation") was classified as discontinued operation in the prior years. According to the supplemental agreements dated 19 September 2007, 17 December 2007, 28 February 2008, 20 May 2008 and 30 September 2008, entered into among the Group, the purchaser and Kong Sun Holdings Limited (the holding company of the purchaser), the long stop date and the disposal of the Life-like Plants Operation is extended to 31 December 2008. Kong Sun Holdings Limited and its subsidiaries are collectively referred to as the Kong Sun Group. The disposal of Life-like Plants Operation was completed on 16 December 2008, details of which are disclosed in the Company's announcement dated 16 December 2008.

## 6. TURNOVER AND SEGMENTAL INFORMATION (continued)

**Business segments (continued)**

Since 2007, the Group ceased all the operations relating to the production, distribution and licensing of television programmes. The related inventories, which were master tapes of television programmes, have been fully sold or written off and no further sales transaction was generated from this business segment. Accordingly, the business segment of production, distribution and licensing of television programmes was classified as discontinued operation in the prior years.

*For the year ended 30 June 2009*

| | Continuing operations | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|
| | Copper rods | Iron-ore concentrated powder | Cable and wires | Total | Life-like plants | Production, distribution and licensing of television programmes | Total | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| TURNOVER | | | | | | | | |
| Sales to external customers | 1,036,628 | 3,157 | 49,533 | 1,089,318 | 107,958 | – | 107,958 | 1,197,276 |
| RESULTS | | | | | | | | |
| Segment results | (259,903) | (13,361) | (12,392) | (285,656) | (9,575) | – | (9,575) | (295,231) |
| Unallocated corporate income | – | – | – | 2,647 | – | – | – | 2,647 |
| Unallocated corporate expenses | – | – | – | (7,420) | – | – | – | (7,420) |
| Gains on deemed disposal of a jointly-controlled entity and disposal of available-for-sale investment, net | 7,237 | – | – | 7,237 | – | – | – | 7,237 |
| Change in fair value of convertible note designated as at fair value through profit or loss and loss on disposal of assets classified as held for sale and associated liabilities | – | – | – | 31,233 | (26,512) | – | (26,512) | 4,721 |
| Gain on asset swap | – | – | – | 53,505 | – | – | – | 53,505 |
| Impairment loss on intangible asset | – | (102,917) | – | (102,917) | – | – | – | (102,917) |
| Impairment loss on property, plant and equipment | – | (19,621) | – | (19,621) | – | – | – | (19,621) |
| Impairment loss on prepaid lease payments for land | – | (488) | – | (488) | – | – | – | (488) |
| Share of results of a jointly–controlled entity | (3,129) | – | – | (3,129) | – | – | – | (3,129) |
| Loss before taxation | | | | (324,609) | | | (36,087) | (360,696) |
| Taxation | | | | 35,360 | | | – | 35,360 |
| Loss for the year | | | | (289,249) | | | (36,087) | (325,336) |

## 6. TURNOVER AND SEGMENTAL INFORMATION (continued)

**Business segments (continued)**

*At 30 June 2009*

| | Copper rods HK$'000 | Iron-ore concentrated powder HK$'000 | Cable and wires HK$'000 | Life-like plants HK$'000 | Production, distribution and licensing of television programmes HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| BALANCE SHEET | | | | | | |
| Assets | | | | | | |
| Segment assets | 80,454 | 77,842 | 254,946 | – | – | 413,242 |
| Unallocated corporate assets | | | | | | 164,992 |
| Consolidated total assets | | | | | | 578,234 |
| Liabilities | | | | | | |
| Segment liabilities | (26,142) | (22,244) | (85,159) | – | (34,510) | (168,055) |
| Unallocated corporate liabilities | | | | | | (13,053) |
| Consolidated total liabilities | | | | | | (181,108) |

OTHER INFORMATION

| | Continuing operations | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|
| | Copper rods HK$'000 | Iron-ore concentrated power HK$'000 | Cable and wires HK$'000 | Total HK$'000 | Life-like plants HK$'000 | Production, distribution and licensing of television programmes HK$'000 | Total HK$'000 | Consolidated HK$'000 |
| Capital additions | 120 | 1,830 | 9,355 | 11,305 | 169 | – | 169 | 11,474 |
| Depreciation | 10,769 | 6,411 | 5,639 | 22,819 | 689 | – | 689 | 23,508 |
| Allowance for doubtful debts | – | 364 | – | 364 | – | – | – | 364 |
| Bad debts written off | 3,452 | – | – | 3,452 | – | 936 | 936 | 4,388 |

## 6. TURNOVER AND SEGMENTAL INFORMATION (continued)

**Business segments (continued)**

*For the year ended 30 June 2008*

| | Continuing operations | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|
| | Copper rods HK$'000 | Iron-ore concentrated powder HK$'000 | Total HK$'000 | Life-like plants HK$'000 | Production, distribution and licensing of television programmes HK$'000 | Total HK$'000 | Consolidated HK$'000 |
| TURNOVER | | | | | | | |
| Sales to external customers | 2,964,803 | 4,181 | 2,968,984 | 106,937 | – | 106,937 | 3,075,921 |
| RESULTS | | | | | | | |
| Segment results | 76,036 | (2,356) | 73,680 | (492) | (719) | (1,211) | 72,469 |
| Unallocated corporate income | – | – | 7,872 | – | – | – | 7,872 |
| Unallocated corporate expenses | – | – | (9,765) | – | – | (45) | (9,810) |
| Finance costs | – | – | (42,624) | – | – | (3,521) | (46,145) |
| Share of results of a jointly-controlled entity | (2,078) | – | (2,078) | – | – | – | (2,078) |
| Profit/(loss) before taxation | | | 27,085 | | | (4,777) | 22,308 |
| Taxation | | | (11,272) | | | (82) | (11,354) |
| Profit/(loss) for the year | | | 15,813 | | | (4,859) | 10,954 |

*At 30 June 2008*

| | Copper rods HK$'000 | Iron-ore concentrated powder HK$'000 | Life-like plants HK$'000 | Production, distribution and licensing of television programmes HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| BALANCE SHEET | | | | | |
| Assets | | | | | |
| Segment assets | 1,139,077 | 207,241 | 102,053 | 974 | 1,449,345 |
| Interest in a jointly-controlled entity | 18,057 | – | – | – | 18,057 |
| Unallocated corporate assets | | | | | 78,919 |
| Consolidated total assets | | | | | 1,546,321 |
| Liabilities | | | | | |
| Segment liabilities | 706,038 | 57,992 | 43,405 | 30,334 | 837,769 |
| Unallocated corporate liabilities | | | | | 1,379 |
| Consolidated total liabilities | | | | | 839,148 |

## 6. TURNOVER AND SEGMENTAL INFORMATION (continued)

### Business segments (continued)

OTHER INFORMATION

| | Continuing operations | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|
| | Copper rods HK$'000 | Iron-ore concentrated power HK$'000 | Total HK$'000 | Life-like plants HK$'000 | Production, distribution and licensing of television programmes HK$'000 | Total HK$'000 | Consolidated HK$'000 |
| Capital additions | 3,074 | 656 | 3,730 | 859 | – | 859 | 4,589 |
| Depreciation | 15,375 | 773 | 16,148 | 2,257 | – | 2,257 | 18,405 |

### Geographical segments

The Group's operations are located in Hong Kong, the PRC, America, Europe and other Asian regions.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

| | Continuing operations | | Discontinued operations | | Consolidated turnover by geographical market | |
|---|---|---|---|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 |
| PRC | **1,089,318** | 2,968,984 | **–** | – | **1,089,318** | 2,968,984 |
| America | **–** | – | **104,448** | 100,236 | **104,448** | 100,236 |
| Europe | **–** | – | **1,857** | 4,377 | **1,857** | 4,377 |
| Hong Kong | **–** | – | **1,202** | 2,268 | **1,202** | 2,268 |
| Other Asian regions | **–** | – | **451** | 56 | **451** | 56 |
| | **1,089,318** | 2,968,984 | **107,958** | 106,937 | **1,197,276** | 3,075,921 |

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical areas in which the assets are located:

| | Carrying amount of segment assets | | Additions to property, plant and equipment | |
|---|---|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 |
| PRC | **413,242** | 1,187,669 | **11,305** | 3,730 |
| Hong Kong | **–** | 261,676 | **–** | – |
| | **413,242** | 1,449,345 | **11,305** | 3,730 |

## 7. (LOSS)/PROFIT BEFORE TAXATION

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| (Loss)/profit before taxation has been arrived at after charging: | | | | | | |
| Auditors' remuneration | **657** | 1,127 | **95** | 360 | **752** | 1,487 |
| Depreciation of property, plant and equipment *(Note 14)* | **22,819** | 16,148 | **689** | 2,257 | **23,508** | 18,405 |
| Amortisation of intangible asset *(Note 16)* | **422** | 364 | **–** | – | **422** | 364 |
| Cost of inventories | **1,323,985** | 2,902,092 | **104,909** | 91,816 | **1,428,894** | 2,993,908 |
| Charge of prepaid lease payments for land *(Note 15)* | **1,125** | 1,528 | **193** | 463 | **1,318** | 1,991 |
| Operating lease rentals in respect of rented premises | **453** | 535 | **223** | 560 | **676** | 1,095 |
| Impairment loss on prepaid lease payments for land *(Note 15)* | **488** | – | **–** | – | **488** | – |
| Allowance for doubtful debts *(Note 21)* | **364** | – | **–** | – | **364** | – |
| Bad debts written off | **3,452** | – | **936** | – | **4,388** | – |
| | **3,816** | – | **936** | – | **4,752** | – |
| Wages, salaries and pension contributions including directors' remuneration *(Note 8)* | **8,255** | 17,665 | **4,781** | 14,093 | **13,036** | 31,758 |
| Share-based payments expense | **3,420** | 7,959 | **–** | – | **3,420** | 7,959 |
| and after crediting: | | | | | | |
| Exchange (gains)/losses, net | **(1,079)** | (2,309) | **566** | (2,310) | **(513)** | (4,619) |
| Net rental income after deducting outgoings | **(537)** | (1,301) | **–** | – | **(537)** | (1,301) |
| Interest income on promissory note receivable | **(237)** | – | **–** | – | **(237)** | – |
| Interest income on loans receivable | **(3,046)** | – | **–** | – | **(3,046)** | – |
| Management fee income | **(646)** | (3,023) | **–** | – | **(646)** | (3,023) |
| Subcontracting fee income | **(3,304)** | (5,896) | **–** | – | **(3,304)** | (5,896) |
| Gain on disposal of property, plant and machinery, net | **(4)** | – | **–** | – | **(4)** | – |

*Note:* Cost of inventories includes HK$23,299,000 (2008: HK$33,432,000) relating to staff costs, depreciation of property, plant and equipment and charge of prepaid lease payments for land, for which amounts are also included in the respective total amounts disclosed separately above.

## 8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Particulars of the remuneration of the directors and the five highest paid individuals for the year were as follows:

| Name of director | Fees | | Salaries and other benefits | | Share-based payment | | Retirement benefit scheme contributions | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Mr. Wong Hin Shek | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| Mr. Chau Lai Him | **–** | – | **120** | 195 | **–** | – | **5** | 9 | **125** | 204 |
| Mr. Chow Kin Ming | **–** | – | **–** | 576 | **–** | – | **–** | 4 | **–** | 580 |
| Mr. Chu Yuk Kuen | **–** | – | **165** | 390 | **543** | – | **–** | – | **708** | 390 |
| Mr. Chung Kam Kwong | **115** | 107 | **–** | – | **–** | – | **–** | – | **115** | 107 |
| Mr. Lo Chao Ming | **50** | 60 | – | – | **–** | – | **–** | – | **50** | 60 |
| Mr. Lee Kin Keung | **295** | 82 | – | – | **–** | – | **–** | – | **295** | 82 |
| Mr. Yue Peter | **–** | 21 | – | – | **–** | – | **–** | – | **–** | 21 |
| Mr. Chan Sio Keong | **–** | – | **536** | 585 | **–** | 742 | **10** | 10 | **546** | 1,337 |
| Mr. Chan Kwan Hung | **–** | – | **294** | 900 | **–** | 1,114 | **4** | 9 | **298** | 2,023 |
| Mr. Wong Yun Kuen | **1** | – | **–** | – | **–** | – | **–** | – | **1** | – |
| Mr. Chiu Wai On | **1** | – | – | – | **–** | – | **–** | – | **1** | – |
| Mr. Man Kwok Leung | **7** | – | – | – | **–** | – | **–** | – | **7** | – |
| Total | **469** | 270 | **1,115** | 2,646 | **543** | 1,856 | **19** | 32 | **2,146** | 4,804 |

During the current and prior years, certain directors of the Company were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in Note 38. The fair value of such options which was recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current and the prior years was included in the above directors' remuneration disclosures. There was no arrangement under which a director waived or agreed to waive any remuneration during the years.

The five highest paid individuals of the Group include three (2008: three) executive directors of the Company, details of whose remuneration are included above. The remuneration of the remaining two (2008: two) individuals for the year ended 30 June 2009 were as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries | **837** | 525 |
| Contributions to retirement benefits schemes | **14** | 12 |
| Equity-settled share options expense | **–** | 1,299 |
| | **851** | 1,836 |

## 8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

Their emoluments fell within the following bands:

| | Number of individuals 2009 | 2008 |
|---|---|---|
| HK$Nil – HK$1,000,000 | **2** | 1 |
| HK$1,000,001 – HK$1,500,000 | **–** | 1 |
| | **2** | 2 |

During the current year, share option was granted to Nil non-director, highest paid individual (2008: two individuals) in respect of their services to the Group, further details of which are included in the disclosures in Note 38. The fair value of such options, which was recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the prior year was included in the above non-director, highest paid individuals' remuneration disclosures.

There was no arrangement under which the above non-director, highest paid individuals waived or agreed to waive any remuneration during the years.

## 9. FINANCE COSTS

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest on bank borrowings and other loans wholly repayable within five years | **21,320** | 42,602 | **4,280** | 3,521 | **25,600** | 46,123 |
| Interest on finance leases | **–** | 22 | **–** | – | **–** | 22 |
| | **21,320** | 42,624 | **4,280** | 3,521 | **25,600** | 46,145 |

## 10. TAXATION

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong profits tax | | | | | | |
| Current year | **424** | 2,215 | **–** | 82 | **424** | 2,297 |
| Underprovision in respect of prior years | **302** | – | **–** | – | **302** | – |
| Taxation in the PRC | | | | | | |
| Current year | **36** | 11,553 | **–** | – | **36** | 11,553 |
| Overprovision in respect of prior years | **(10,137)** | – | **–** | – | **(10,137)** | – |
| | **(9,375)** | 13,768 | **–** | 82 | **(9,375)** | 13,850 |
| Deferred taxation *(Note 28)* | **(25,985)** | (2,496) | **–** | – | **(25,985)** | (2,496) |
| | **(35,360)** | 11,272 | **–** | 82 | **(35,360)** | 11,354 |

Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profit arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The domestic tax rate of principal subsidiaries in the PRC is used as it is where the operations of the Group are substantially based. For the six months ended 31 December 2007, pursuant to the approvals obtained from the relevant PRC tax authorities, the major subsidiaries in Dongguan, the PRC, enjoy tax benefit and were entitled to the PRC enterprise income tax of 24% and local income tax of 3% and therefore, subject to a total corporate income tax rate of 27%. On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC (the "New Tax Law"), which became effective on 1 January 2008. Further, on 6 December 2007, the State Council released the implementation rules to the New Tax Law. According to the New Tax Law, from 1 January 2008, the standard corporate income tax rate for enterprises in the PRC was reduced from 33% to 25%. Accordingly the applicable corporate income tax rate was 25% for the six months ended 30 June 2008. The applicable corporate income tax rate was 25% for the year ended 30 June 2009.

## 10. TAXATION (continued)

The tax for the year can be reconciled to the (loss)/profit before taxation per the consolidated income statement as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss)/profit before taxation | **(360,696)** | 22,308 |
| Tax at the PRC domestic income tax rate as at the balance sheet date of 25% (2008: 25%) | **(90,174)** | 5,577 |
| Tax effect of expenses not deductible for tax purpose | **34,562** | 11,767 |
| Tax effect of income not taxable for tax purpose | **(33,290)** | (4,928) |
| Tax effect of tax losses not recognised | **59,697** | – |
| Utilisation of tax losses previously not recognised | **–** | (1,452) |
| Underprovision in respect of prior years, net | **(9,835)** | – |
| Tax effect of share of results of a jointly-controlled entity | **–** | 520 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions and changes in tax rates | **3,680** | (10) |
| Others | **–** | (120) |
| Tax for the year | **(35,360)** | 11,354 |

## 11. (LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 30 June 2009 includes a loss of HK$7,366,000 (2008: a loss of HK$941,000) which has been dealt with in the financial statements of the Company.

## 12. DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 30 June 2009 (2008: HK$Nil).

## 13. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share amounts is based on the (loss)/profit for the years attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the share subdivision and share consolidation during the year. Basic and diluted earnings per share amounts for the year ended 30 June 2008 are restated to take into effect the share subdivision and share consolidation during the year ended 30 June 2009.

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

## 13. (LOSS)/EARNINGS PER SHARE (continued)

**From continuing and discontinued operations**

The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| (Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share | (322,603) | 10,663 |

| | Number of shares 2009 | 2008 (Restated) |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share | 228,858,862 | 154,771,700 |
| Effect of dilutive potential ordinary shares in respect of share options | – | 2,515,330 |
| Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share | 228,858,862 | 157,287,030 |

**From continuing operations**

The calculation of the basic and diluted (loss)/earnings per share from continuing operations is based on the following data:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| (Loss)/profit for the year | (322,603) | 10,663 |
| Loss for the year from discontinued operations | 36,087 | 4,859 |
| (Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share from continuing operations | (286,516) | 15,522 |

The denominators used are the same as those detailed above for calculating basic and diluted (loss)/earnings per share for continuing and discontinued operations.

**From discontinued operations**

Basic loss per share for discontinued operations is 15.77 HK cents (2008: 3.14 HK cents (restated)) based on the loss for the year from discontinued operations of HK$36,087,000 (2008: HK$4,859,000).

No diluted loss per share from the (i) continuing and discontinued operations for the current year; (ii) continuing operations for the current year; and (iii) discontinued operation for the current and prior years, was disclosed because there was no outstanding share options as at 30 June 2009 and the outstanding share options as at 30 June 2008 were anti-dilutive.

## 14. PROPERTY, PLANT AND EQUIPMENT AND PREPAYMENTS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

| | Construction in progress HK$'000 | Buildings HK$'000 | Leasehold improvements HK$'000 | Equipment, furniture and fixtures HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| THE GROUP | | | | | | | |
| COST | | | | | | | |
| At 1 July 2007 | 5,325 | 54,755 | 6,720 | 6,298 | 149,330 | 5,635 | 228,063 |
| Additions | 388 | 687 | – | 701 | 1,490 | 464 | 3,730 |
| Disposals | – | (271) | – | – | (3,793) | – | (4,064) |
| Reclassification | (4,436) | – | – | – | 4,436 | – | – |
| Currency realignment | 404 | 6,682 | 772 | 724 | 13,257 | 517 | 22,356 |
| Acquisition of subsidiaries *(Note 33)* | 1,963 | 12,274 | – | 2,690 | 16,713 | 4,393 | 38,033 |
| At 30 June 2008 | 3,644 | 74,127 | 7,492 | 10,413 | 181,433 | 11,009 | 288,118 |
| Additions | 3,338 | 4,736 | – | 227 | 3,004 | – | 11,305 |
| Disposals | (1,595) | – | – | (721) | (27) | (955) | (3,298) |
| Reclassification | (32,888) | 30,639 | – | – | 2,249 | – | – |
| Currency realignment | (4) | (84) | (9) | (10) | (162) | (10) | (279) |
| Acquisition of subsidiaries under asset swap *(Notes 32(i))* | 63,891 | 47,249 | – | 5,625 | 61,404 | 1,177 | 179,346 |
| Disposal of subsidiaries under asset swap *(Note 32(ii))* | (1,391) | (41,992) | – | (4,433) | (110,116) | (4,872) | (162,804) |
| At 30 June 2009 | 34,995 | 114,675 | 7,483 | 11,101 | 137,785 | 6,349 | 312,388 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES | | | | | | | |
| At 1 July 2007 | – | 5,036 | 704 | 3,334 | 44,299 | 2,550 | 55,923 |
| Provided for the year | – | 3,065 | 507 | 1,174 | 10,555 | 847 | 16,148 |
| Currency realignment | – | 857 | 121 | 366 | 4,432 | 243 | 6,019 |
| At 30 June 2008 | – | 8,958 | 1,332 | 4,874 | 59,286 | 3,640 | 78,090 |
| Provided for the year *(Note 7)* | – | 5,574 | 373 | 3,465 | 11,870 | 1,537 | 22,819 |
| Currency realignment | – | (10) | (2) | (4) | (50) | (3) | (69) |
| Disposal | – | – | – | (145) | (7) | (671) | (823) |
| Impairment loss *(Note 7)* | – | 6,730 | – | – | 12,891 | – | 19,621 |
| Disposal of subsidiaries under asset swap *(Note 32(ii))* | – | (8,377) | – | (3,509) | (54,224) | (2,977) | (69,087) |
| At 30 June 2009 | – | 12,875 | 1,703 | 4,681 | 29,766 | 1,526 | 50,551 |
| NET CARRYING AMOUNT | | | | | | | |
| At 30 June 2009 | 34,995 | 101,800 | 5,780 | 6,420 | 108,019 | 4,823 | 261,837 |
| At 30 June 2008 | 3,644 | 65,169 | 6,160 | 5,539 | 122,147 | 7,369 | 210,028 |

## 14. PROPERTY, PLANT AND EQUIPMENT AND PREPAYMENTS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT (continued)

The Group has pledged buildings with a carrying amount at 30 June 2009 of HK$98,194,000 (2008: HK$52,738,000) to secure banking facilities granted to the Group (Note 36).

As at 30 June 2009, the prepayment amounts represented prepayments made for acquisition of items of property, plant and equipment, of which most were utilised on the completion of the acquisition subsequent to 30 June 2009.

Details of impairments are set out in Note 16.

## 15. PREPAID LEASE PAYMENTS FOR LAND

| | NOTES | **2009**<br>***HK$'000*** | 2008<br>*HK$'000* |
|---|---|---|---|
| Net carrying amount: | | | |
| At beginning of year | | **64,951** | 54,871 |
| Charge to the consolidated income statement | *7* | **(1,125)** | (1,528) |
| Acquisition of subsidiaries | *32(i), 33* | **11,450** | 852 |
| Disposal of subsidiaries under asset swap | *32(ii)* | **(60,109)** | – |
| Impairment loss | *7* | **(488)** | – |
| Additions | | **–** | 4,260 |
| Exchange realignment | | **(73)** | 6,496 |
| At end of year | | **14,606** | 64,951 |

The Group's net carrying amount of the prepaid lease payments for land is analysed as follows:

| | **2009**<br>***HK$'000*** | 2008<br>*HK$'000* |
|---|---|---|
| Leasehold land under medium-term lease in the PRC | **14,606** | 64,951 |
| Analysed for reporting purposes as: | | |
| Non-current | **14,241** | 63,217 |
| Current | **365** | 1,734 |
| | **14,606** | 64,951 |

The Group has pledged prepaid lease payments for land with a carrying amount at 30 June 2009 of HK$14,345,000 (2008: HK$28,800,000) to secure banking facilities granted to the Group (Note 36).

At 30 June 2009, the Group was in the process of obtaining the relevant title documents of certain of its land use rights with a carrying amount of HK$Nil (2008: HK$30,832,000).

Details of impairments are set out in Note 16.

## 16. INTANGIBLE ASSET

| | Mining right<br>*HK$'000* |
|---|---|
| Cost: | |
| At 1 July 2007 | – |
| Acquisition arising on business combination *(Note 33)** | 158,831 |
| At 30 June 2008 and 2009 | 158,831 |
| Accumulated amortisation and impairment: | |
| At 1 July 2007 | – |
| Amortisation for the year *(Note 7)*** | 364 |
| At 30 June 2008 | 364 |
| Amortisation for the year *(Note 7)*** | 422 |
| Impairment loss*** | 102,917 |
| At 30 June 2009 | 103,703 |
| Net carrying amount: | |
| At 30 June 2009 | 55,128 |
| At 30 June 2008 | 158,467 |

* The mining right purchased as part of a business combination of Yeading Enterprises Limited and its subsidiaries (collectively referred to as the "Yeading Group") during the year ended 30 June 2008 are initially recognised at the aggregate of the total consideration and direct costs attributable to the above business combination paid by the Group less the net assets of the Yeading Group acquired at the date of the completion of acquisition, details of which are set out in Note 33. At subsequent balance sheet dates, mining right is measured using the cost model.

** Amortisation is provided to write off the cost of the mining right using the units of production method based on the proven and probable mineral reserves under the assumption that the Group can renew the mining right till all proven and probable reserves have been mined.

The amortisation charge for the mining right for the year is included in the Group's "cost of sales" in the consolidated income statement.

## 16. INTANGIBLE ASSET (continued)

*** In the prior year, the Group acquired 100% equity interests of the Yeading Group with a view that iron-ore mining business is in a fast growing trend with immense potential and such acquisition would diversify the Group into a new business with significant growth potential. However, there are a number of unforeseeable and uncontrollable factors happened subsequent to such investment decision in the global economy in 2008 and has been continuing which resulted in the prospect of the iron-ore mining industry has not been growing as fast as expected.

The prospect of iron-ore mining business grows in line with the economy. The global recession and slower economic growth of the PRC are negatively hindering the manufacturing activities in the PRC which in turn affects the demand of, and put pressure on the market price of iron-ore.

In view of the slower economic growth of the PRC and uncertainty in the economic recovery during this period of global recession, the prospect of the iron-ore market will continue to be affected and the business in iron-ore mining will continue to be difficult and challenging. The Group believes that the profitability potential of the Yeading Group will be reduced in the short and medium terms. The Group considered such decline indicated that the carrying amount of the Group's iron-ore mining business has been impaired and impairment losses of HK$102,917,000, HK$19,621,000 and HK$488,000 have been recognised in the consolidated income statement for the current year to reduce the carrying values of the intangible asset, property, plant and equipment and prepaid lease payments for land (all are attributable assets of the iron-ore mining business) respectively to their estimated recoverable amounts. The estimated recoverable amounts of these assets of the Group were determined based on a value-in-use calculation of the Group's iron-ore mining business with reference to a valuation report issued by Norton Appraisal Limited, an independent firm of professionally qualified valuers, in respect of the iron-ore mining business of the Group.

Details of the Group's mining right and exploration right are as follows:–

| **Mines** | **Locations** | **Expiry date** | *Notes* |
|---|---|---|---|
| **Mining right** | | | |
| (北堡子鐵礦)<br>Zhong Guan Town Mine | (承德市隆化縣中關鎮北堡子村)<br>Bei Bao Zi Village,<br>Zhong Guan Town,<br>Long Hua County,<br>Chengde City,<br>He Bei Province, the PRC | 10 December 2011 | *(a)* |
| **Exploration right** | | | |
| (章吉營鄉孤山村孤山鐵礦)<br>Gu Shan Mine | (河北省承德市隆化縣)<br>Gu Shan Village<br>Long Hua County,<br>Chengde City,<br>He Bei Province, the PRC | 19 October 2009 | *(b)* |

(a) The directors considered that the aggregate of the total consideration and direct costs attributable to the business combination of the Yeading Group paid by the Group less the net assets of the Yeading Group acquired at the date of completion of the acquisition is recognised as the initial cost of mining right of the Group and therefore no goodwill or discount on acquisition arose from the acquisition of the Yeading Group in the prior year.

## 16. INTANGIBLE ASSET (continued)

(b) The exploration right represented licence for the right for exploration in the specified location in the PRC, and the period of this exploration right is within 1 year. In the opinion of the directors of the Company, the mining project with the above exploration right has not reached a stage at which there is a high degree of confidence in its viability and therefore nil initial cost is capitalised for this exploration right into the exploration and evaluation asset upon the completion of the acquisition of the Yeading Group and as at 30 June 2008 and 2009.

## 17. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **1** | 1 |
| Amounts due from subsidiaries | **612,730** | 587,580 |
| | **612,731** | 587,581 |
| *Less:* impairment loss on amounts due from subsidiaries | **(475,000)** | (85,378) |
| | **137,731** | 502,203 |

The amounts due from subsidiaries are unsecured, interest-free and are not repayable within twelve months after the balance sheet date. The carrying amount of the amounts due from subsidiaries approximates their fair value and in substance represents the Company's interests in the subsidiaries in the form of quasi-equity loans and therefore they are included under the non-current assets of the Company.

An impairment loss on amounts due from subsidiaries of HK$475,000,000 (2008: HK$85,378,000) was recognised as at 30 June 2009 because the related recoverable amounts of the amounts due from subsidiaries with reference to the fair values of the respective subsidiaries were estimated to be less than their carrying amounts. Accordingly, the carrying amounts of the related amounts due therefrom are reduced to their recoverable amounts.

The following list contains only the particulars of the principal subsidiaries at 30 June 2009 which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length.

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## 17. INTERESTS IN SUBSIDIARIES (continued)

| Name of company | Place of incorporation or establishment/ operation | Issued and fully paid share capital or registered capital | Proportion of nominal value of issued capital or registered capital held by the Group | Principal activities |
|---|---|---|---|---|
| Hua Yi Copper (BVI) Company Limited | British Virgin Islands | US$1 | 100% | Investment holding |
| Wah Yeung Capital Resources Limited | British Virgin Islands | US$1 | 100% | Investment holding |
| 昆山華藝銅業有限公司 Kunshan Hua Yi Copper Products Company Limited # | PRC | US$5,000,000 | 100% | Manufacture and trading of copper products |
| Brightpower Assets Management Limited | British Virgin Islands | US$1 | 100% | Investment holding |
| 承德劍鋒礦業集團隆化隆鑫礦業有限公司 Chengde Jianfeng Mining Industry Group Long Hua Long Xin Mining Industry Company Limited | PRC | RMB5,000,000 | 90.25% | Manufacture and sale of iron-ore concentrated powder |
| 上杭建潤電業有限公司 Fund Resources Electric Industry Co. Ltd (Shang Hang)# | PRC | HK$40,000,000 | 100% | Manufacture and trading of cable and wire products |
| 昆山周氏電業有限公司 Kunshan Chau's Electrical Company Limited# | PRC | US$5,000,000 | 100% | Manufacture and trading of cable and wire products |

# Wholly-foreign-owned enterprise

None of the subsidiaries issued any debt securities at the balance sheet date.

Except for Hua Yi Copper (BVI) Company Limited, all the subsidiaries are indirectly held by the Company.

## 18. INTEREST IN A JOINTLY-CONTROLLED ENTITY

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Share of net assets | – | 18,057 |

As at 30 June 2008, the interest in a jointly-controlled entity represented the Group's 45% equity interest in Fujian Jinyi Copper Products Company Limited ("Jinyi Copper"). Jinyi Copper was established as a limited liability company in the PRC and was engaged in manufacture and sales of copper wires.

Pursuant to a capital injection agreement dated 17 October 2008, Jinyi Copper, the Group's then 45%-owned jointly-controlled entity increased its registered and paid-up capital by the amount of RMB160,000,000, resulting in a deemed disposal of the equity interest in Jinyi Copper by the Group. Following the deemed disposal, the Group's equity interest in Jinyi Copper was reduced from 45% to 9% and lost the joint control over the economic activities of Jinyi Copper, and therefore Jinyi Copper ceased to be a jointly-controlled entity of the Group and became an available-for-sale investment. Gain on the deemed disposal amounting to HK$7,466,000 (2008: HK$Nil), including recognition of exchange reserve of HK$3,044,000 upon the deemed disposal, was recognised in the consolidated income statement for the year.

Subsequent to the deemed disposal and on 3 April 2009, the Group entered into a sale and purchase agreement with Best Ground Group Limited, an independent third party, to dispose of its entire 9% equity interest in Jinyi Copper at a net consideration of HK$19,121,000 as further detailed in the Company's announcement dated 3 April 2009. The cash consideration was partially received by the Group at the completion date of the disposal and the remaining consideration has been fully received subsequent to 30 June 2009. Loss on such further disposal on the available-for-sale investment amounting to HK$229,000 (2008: HK$Nil) was recognised in the consolidated income statement for the year.

The summarised financial information in respect of the Group's jointly-controlled entity in the prior year is as follows:

| | 2008 HK$'000 |
|---|---|
| Group's share of jointly-controlled entity's assets and liabilities: | |
| Current assets | 70,437 |
| Non-current assets | 40,299 |
| Current liabilities | (83,034) |
| Non-current liabilities | (9,645) |
| Net assets | 18,057 |
| Group's share of the jointly-controlled entity's results: | |
| Income | 19,686 |
| Expenses and taxation | (21,764) |
| Loss for the year | (2,078) |

## 19. CONVERTIBLE NOTE DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

A convertible note with principal amount of HK$40,000,000 carrying coupon interest at 4% per annum with maturity date on 15 December 2011 (the "Maturity Date"), was issued by the Kong Sun Group to the Group as part of consideration for the Group's disposal of the Life-like Plants Operation. Further details of the disposal are set out in Note 31.

The Group has the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the convertible note into conversion shares; and the right, at any time during the period between 20 months after the issue of the convertible note and before the Maturity Date, to redeem, the whole or part of the outstanding principal amount of the convertible note. On the other hands, the Kong Sun Group has the right, at any time during the period commencing from the date immediately following the date of issue of the convertible note up to the day immediately prior to and exclusive of the Maturity Date, to mandatorily convert the whole of the outstanding principal amount of the convertible note registered in the name of noteholder into conversion shares at the then applicable conversion price of HK$0.1 per conversion share that subject to adjustment clauses in the convertible note agreement, or redeem any convertible note remaining outstanding at the Maturity Date at its nominal value. The convertible note may be transferred to any person but shall not be assigned or transferred to a connected person of the issuer without the prior written consent of the issuer.

Upon initial recognition, the Group has designated the convertible note as a financial asset at fair value through profit or loss and is carried at fair value. The fair value of the convertible note on the issue date is HK$15,520,000 (Note 31) based on a professional valuation performed by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professionally qualified valuers.

At 30 June 2009, the fair value of the convertible note is HK$46,753,000, based on the professional valuation performed by Kovas Magni Appraisal Limited, an independent firm of professionally qualified valuers. Accordingly, a gain on fair value of HK$31,233,000 was credited to the consolidated income statement.

## 20. INVENTORIES

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **8,672** | 259,774 |
| Work in progress | **8,101** | 3,090 |
| Finished goods | **4,406** | 67,210 |
| | **21,179** | 330,074 |

## 21. DEBTORS, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in the Group's debtors, other receivables, deposits and prepayments were trade debtors with outsiders of HK$28,899,000 (2008: HK$108,510,000), and trade balances with related companies of HK$Nil (2008: HK$182,016,000). The Group allows an average credit period of 0 to 90 days to its trade debtors with outsiders and a credit period of 45 days to its related companies. The above related companies are entities of Solartech International Holdings Limited ("Solartech") and its subsidiaries (the "Solartech Group"). Since 22 April 2008, the Company became an associate of Solartech as a result of the Company's issue of its shares as partial settlement for the acquisition of the Yeading Group and therefore they became related companies of the Company on the same date. On 5 May 2009, the Company ceased to be the associate of Solartech as a result of the disposal of the entire equity interest in the Company held by Solartech. These companies are related companies of the Group as a director of these companies is also a director of the Company as at the balance sheet date.

(i) The aging analysis of trade debtors, net of allowance for doubtful debts, based on invoice date, is as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **11,318** | 100,278 |
| 31 – 60 days | **4,228** | 53,085 |
| 61 – 90 days | **6,105** | 27,322 |
| Over 90 days | **7,248** | 109,841 |
| | **28,899** | 290,526 |

(ii) The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

| | **The Group** | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| At beginning of year | **6,845** | 6,796 |
| Impairment loss recognised *(Note 7)* | **364** | – |
| Disposal of subsidiaries under asset swap | **(6,845)** | – |
| Exchange realignment | **–** | 49 |
| | **364** | 6,845 |

At 30 June 2009, the Group's trade debtors of HK$364,000 (2008: HK$6,845,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that none of the receivables is expected to be recovered. Consequently, specific and full allowances for doubtful debts were recognised for such balances as at the respective balance sheet dates. The Group does not hold any collateral over these balances.

Except for the above, no allowance has been made for estimated irrecoverable amounts from the sale of goods.

## 21. DEBTORS, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

(iii) The aging analysis of trade debtors that are neither individually nor collectively considered to be impaired is as follows:

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **27,488** | 99,437 |
| Less than 1 month past due | **278** | 63,909 |
| 1 to 3 months past due | **489** | 32,670 |
| More than 3 months past due | **644** | 94,510 |
| | **28,899** | 290,526 |

Trade debtors that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the Group of which HK$Nil (2008: HK$130,017,000) were trade debts with related companies. Based on past experience, management believes that no impairment allowance 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.

At 30 June 2009, included in debtors, other receivables, deposits and prepayments were cash advances to related companies amounted to HK$Nil (2008: HK$20,038,000). The amounts were unsecured, interest-free and repayable on demand.

At 30 June 2009, other than the trade debtors disclosed above, none of the balances included in debtors, other receivables, deposits and prepayments were either past due or impaired which there were no recent history of default.

At 30 June 2009, included in debtors, other receivables, deposits and prepayments were amounts due from financial institutions amounting to HK$Nil (2008: HK$14,159,000) resulting from the net settlements of derivative financial instruments which were in the closed out positions as at the balance sheet date. The prior year amount was fully settled during the year.

## 22. BILLS RECEIVABLE

As at 30 June 2008 and 2009, all bills receivables aged within 180 days.

## 23. LOANS RECEIVABLE, SECURED

(i) As at 30 June 2008, there was a loan receivable of HK$43,909,000 due from a third party, which was interest-bearing at 2.5% per annum and secured by the plant and machinery of the third party. As at 30 June 2008, the balance is repayable by 30 June 2009. Therefore it was classified as a current asset as at 30 June 2008.

On 4 February 2009, the Solartech Group and the Group entered into an asset swap arrangement as further detailed in Note 32 and accordingly, the above loan receivable was derecognised from the consolidated balance sheet of the Group on the same date.

## 23. LOANS RECEIVABLE, SECURED (continued)

(ii) At 30 June 2009, there were two loans of HK$35,900,000 in aggregate due from two independent third parties (2008: three loans of HK$56,568,000 in aggregate). These loans are interest-bearing at 5% per annum or prime rate and secured by interests in coal and mineral mines located in Mongolia, of which one of the loans in the amount of HK$14,702,000 as at the balance sheet date is repayable on 30 June 2010 and therefore this loan receivable was classified as a current asset as at 30 June 2009. The remaining loan in the amount of HK$21,198,000 as at the balance sheet date was originally due for repayment on 31 August 2009. On 31 August 2009, the repayment date is extended to 31 August 2010, and therefore it was classified as a non-current asset as at 30 June 2009. The prior year loans of HK$56,568,000 were repayable within 12 months from 30 June 2008 and therefore were classified as a current asset as at 30 June 2008.

## 24. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | Assets | Liabilities |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Copper futures contracts | – | – | 18 | – |
| Foreign exchange forward contracts | – | – | 607 | (372) |
| | – | – | 625 | (372) |

There is no copper futures contract or forward foreign exchange contract entered into by the Group which remains outstanding as at 30 June 2009.

**Copper futures contracts**

The major terms of the outstanding copper future contracts of the Group which had not been designated as hedging instruments as at 30 June 2008 were as follows:

| | As at 30 June 2008 |
|---|---|
| Quantities (in tonnes) | 1,000 |
| Average price per tonne | US$8,521 |
| Delivery period | From August 2008 to September 2008 |
| Fair value gain of copper futures contracts recognised as current assets (in HK$'000) | 18 |

## 24. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (continued)

**Forward foreign exchange contracts**

The forward foreign exchange contracts are settled at specific time intervals and the major terms of the forward foreign exchange contracts as at 30 June 2008 are as follows:

**At 30 June 2008**

| Notional amount/ settlement interval | Maturity dates | Contracted exchange rates | Fair value gain/(loss) as at 30 June 2008 HK$'000 | HK$'000 |
|---|---|---|---|---|
| US$1,000,000/month or US$3,000,000/month | 10 February 2009 | HK$7.745/US$1 | 181 | – |
| US$1,000,000/month or US$2,000,000/month | 31 December 2008 | HK$7.738/US$1 | 245 | – |
| US$1,000,000/month or US$3,000,000/month | 23 December 2009 | HK$7.72/US$1 | – | (35) |
| US$500,000/month or US$1,000,000/month | 24 April 2009 | HK$7.73/US$1 | 181 | – |
| US$1,000,000/month or US$3,000,000/month | 22 June 2009 | HK$7.7499 to HK$7.7399/US$1 | – | (337) |
| | | | 607 | (372) |

The above derivatives were measured at fair value at each balance sheet date and were with financial institutions. The fair values of copper futures contracts were determined based on the quoted market prices and the fair values of foreign exchange contracts were provided by banks or financial institutions at the balance sheet date. The change in fair value of derivative financial instruments of HK$434,000 (2008: HK$32,737,000) has been credited to the consolidated income statement during the year.

## 25. CREDITORS, OTHER ADVANCES AND ACCRUALS

Included in the Group's creditors, other advances and accruals were trade creditors with outsiders of HK$15,220,000 (2008: HK$19,178,000).

The aging analysis of trade creditors, based on invoice date, is as follows:

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Within 30 days | **4,778** | 14,663 |
| 31 – 60 days | **2,182** | 2,663 |
| 61 – 90 days | **2,106** | 418 |
| Over 90 days | **6,154** | 1,434 |
| | **15,220** | 19,178 |

## 25. CREDITORS, OTHER ADVANCES AND ACCRUALS (continued)

At 30 June 2009, included in creditors, other advances and accruals were cash advances from related companies amounted to HK$10,894,000 (2008: HK$Nil). The amounts were unsecured, interest-free and have no fixed terms of repayment. The above related companies have a common director with the Company as at the balance sheet date.

## 26. BILLS PAYABLE

As at 30 June 2009, the Group had no outstanding bills payable. As at 30 June 2008, all bills payables aged within 180 days.

## 27. BORROWINGS

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Borrowings are analysed as follows: | | |
| Bank loans | **80,682** | 115,813 |
| Trust receipt loans | **–** | 458,538 |
| Other loans | **27,622** | 24,927 |
| | **108,304** | 599,278 |
| Secured | **80,682** | 574,351 |
| Unsecured | **27,622** | 24,927 |
| | **108,304** | 599,278 |
| The carrying amounts of borrowings repayable: | | |
| Within one year shown under current liabilities | **96,940** | 599,278 |
| More than two years but not exceeding five years shown under non-current liabilities | **11,364** | – |
| | **108,304** | 599,278 |

The average effective interest rates of the bank loans and trust receipt loans range from 5% to 9% (2008: 5% to 7%) per annum.

Except for an amount of HK$23,622,000 at 30 June 2009 (2008: HK$13,168,000) which carried interest at fixed rates ranging from 7% to 36% (2008: 7% to 36%) per annum, other loans were unsecured, interest-free and repayable on demand.

## 27. BORROWINGS (continued)

Over 95% of the Group's borrowings are denominated in the functional currencies of the relevant group entities and therefore exposed to minimal foreign exchange rate risk.

At 30 June 2009, the Group had available HK$5,455,000 (2008: HK$164,081,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Details of the assets pledged for the Group's facilities are set out in Note 36.

## 28. DEFERRED TAX

The following is the major deferred tax liabilities/(assets) recognised by the Group and their movements are:

| | Accelerated tax depreciation<br>*HK$'000* | Intangible asset<br>*HK$'000* | Revaluation of properties<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| At 1 July 2007 | 15,748 | – | – | 15,748 |
| Credited to income statement for the year *(Note 10)* | (1,272) | (91) | – | (1,363) |
| Change in tax rates *(Note 10)* | (1,133) | – | – | (1,133) |
| Acquisition of subsidiaries *(Note 33)* | – | 39,708 | – | 39,708 |
| Exchange realignment | 1,183 | – | – | 1,183 |
| At 30 June 2008 | 14,526 | 39,617 | – | 54,143 |
| Credited to income statement for the year *(Note 10)* | – | (25,835) | (150) | (25,985) |
| Acquisition of subsidiaries under asset swap *(Note 32(i))* | – | – | 2,158 | 2,158 |
| Disposal of subsidiaries under asset swap *(Note 32(ii))* | (14,514) | – | – | (14,514) |
| Exchange realignment | (12) | – | – | (12) |
| At 30 June 2009 | – | 13,782 | 2,008 | 15,790 |

At 30 June 2009, the Group has unused tax losses of HK$21,398,000 (2008: HK$30,389,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams.

The Group had no other significant unprovided deferred tax asset or liability at the balance sheet date (2008: HK$Nil).

## 29. SHARE CAPITAL

| | Number of shares | Amount HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.20 each at 1 July 2007, 30 June 2008 and HK$0.05 each at 30 June 2009 | | |
| Authorised: | | |
| As at 1 July 2007 and 2008 | 1,500,000,000 | 300,000 |
| Capital reorganisation *(Note i)* | 4,500,000,000 | – |
| As at 30 June 2009 | 6,000,000,000 | 300,000 |
| Issued and fully paid: | | |
| As at 1 July 2007 | 673,134,500 | 134,627 |
| Exercise of share options *(Note ii)* | 2,172,000 | 434 |
| Issue of shares by placements *(Note iii)* | 110,000,000 | 22,000 |
| Issue of shares for acquisition of subsidiaries *(Note 33)* | 100,000,000 | 20,000 |
| As at 30 June 2008 | 885,306,500 | 177,061 |
| Capital reorganisation *(Note i)* | (708,245,200) | (168,208) |
| Exercise of share options *(Note ii)* | 17,700,000 | 885 |
| Issue of shares by placements *(Note iii)* | 139,410,000 | 6,971 |
| As at 30 June 2009 | 334,171,300 | 16,709 |

*Notes:*

(i) A special resolution was passed at a special meeting held on 15 December 2008 approving the capital reorganisation scheme (the "Scheme") of the Company which became effective on 16 December 2008. Pursuant to the Scheme, the capital reorganisation involved:

(a) Capital Reduction: the par value of each then issued existing share was reduced from HK$0.20 each to HK$0.01 each by cancellation of HK$0.19 of the paid-up capital on each of the then existing shares;

(b) Sub-Division: each of the then authorised but unissued shares in the capital of the Company of par value HK$0.20 each was sub-divided into 20 shares of par value HK$0.01 each; and

(c) Share Consolidation: upon completion of the capital reduction and the sub-division as mentioned in a) and b) above becoming effective, every five shares of HK$0.01 each in both the issued and unissued share capital of the Company were consolidated into one consolidated share of HK$0.05 each.

Following the implementation of the capital reorganisation set out above, the Company's authorised share capital of HK$300,000,000 was divided into 6,000,000,000 consolidated shares of par value HK$0.05 each, and the number of issued shares and the issued share capital amount were reduced by 708,245,200 and HK$168,208,000 respectively.

## 29. SHARE CAPITAL (continued)

*Notes:* (continued)

(ii) During the year ended 30 June 2009, 17,700,000 (2008: 2,172,000) new ordinary shares of par value HK$0.05 each were issued at subscription price of HK$0.421 (2008: HK$0.275) each on exercise of 17,700,000 (2008: 2,172,000) (Note 38) share options at an aggregate consideration of HK$7,452,000 (2008: HK$597,000), net of issuing expenses, of which HK$885,000 (2008: HK$434,000) was credited to share capital and the remaining balance of HK$6,567,000 (2008: HK$163,000) was credited to the share premium account. In addition, an amount attributable to the related share options of HK$3,420,000 (2008: HK$186,000) has been transferred from share option reserve to the share premium account.

(iii) During the year ended 30 June 2009, 139,410,000 (2008: 110,000,000) new ordinary shares of par value HK$0.05 each were issued at subscription prices ranging from HK$0.30 to HK$0.355 (2008: HK$0.96 to HK$1.20) each to the then independent third parties of the Group at an aggregate consideration, net of issuing expenses, of HK$42,133,000 (2008: HK$109,561,000), of which HK$6,971,000 (2008: HK$22,000,000) was credited to share capital and the remaining balance of HK$35,162,000 (2008: HK$87,561,000) was credited to the share premium account.

## 30. RESERVES

| | Share premium HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| The Company | | | | | |
| At 1 July 2007 | 981 | 246,018 | 4,128 | (56,460) | 194,667 |
| Issue of new shares *(Note 29)* | 87,561 | – | – | – | 87,561 |
| Issue of shares upon exercise of share options *(Note 29)* | 163 | – | – | – | 163 |
| Transfer upon exercise of share options *(Note 29)* | 186 | – | (186) | – | – |
| Recognition of equity-settled share-based payments *(Note 38)* | – | – | 7,959 | – | 7,959 |
| Acquisition of subsidiaries *(Note 33)* | 36,000 | – | – | – | 36,000 |
| Forfeiture of share options | – | – | (1,275) | 1,275 | – |
| Loss for the year | – | – | – | (941) | (941) |
| At 30 June 2008 and 1 July 2008 | 124,891 | 246,018 | 10,626 | (56,126) | 325,409 |
| Capital reorganisation *(Note 29)* | – | 168,208 | – | – | 168,208 |
| Issue of new shares *(Note 29)* | 35,162 | – | – | – | 35,162 |
| Issue of shares upon exercise of share options *(Note 29)* | 6,567 | – | – | – | 6,567 |
| Recognition of equity-settled share-based payments *(Note 38)* | – | – | 3,420 | – | 3,420 |
| Transfer upon exercise of share options *(Note 29)* | 3,420 | – | (3,420) | – | – |
| Cancellation and lapse of share options | – | – | (10,626) | 10,626 | – |
| Loss for the year | – | – | – | (396,988) | (396,988) |
| At 30 June 2009 | 170,040 | 414,226 | – | (442,488) | 141,778 |

## 31. ASSETS/(LIABILITIES) CLASSIFIED AS HELD FOR SALE

In prior years, the Group entered into a conditional sale and purchase agreement with independent third parties to dispose of the entire issue capital in FT China Limited and FT Far East Limited, both being indirect wholly-owned subsidiaries of the Company, which carried on the Life-like Plants Operation and the consideration therefor would be settled by way of promissory note and convertible (Note 19) issued by the Kong Sun Group. The disposal of the entire issue capital in FT China Limited and FT Far East Limited was completed during the current year.

The major classes of assets and liabilities of the Life-like Plants Operation as at 30 June 2008 are as follows:

| | 2008<br>*HK$'000* |
|---|---|
| Property, plant and equipment | 32,672 |
| Prepaid lease payments for land | 15,756 |
| Inventories | 71,669 |
| Debtors, deposits and prepayments | 2,588 |
| Pledged deposits *(Note 36)* | 5,536 |
| Bank balances and cash | 1,832 |
| Impairment loss arising from adjustment to fair value less costs to sell | (28,000) |
| Assets classified as held for sale | 102,053 |
| Creditors and accruals | 35,412 |
| Bills payable | 7,993 |
| Liabilities associated with assets classified as held for sale | 43,405 |

The trade debtor balances as at 30 June 2008 included in debtors, deposits and prepayments aged within 90 days. The trade creditor balances as at 30 June 2008 included in creditors and accruals aged within 90 days. The bills payable aged within 90 days.

A loss on disposal of the Life-like Plants Operation of HK$26,512,000 (2008: HK$Nil) was recognised during the year based on the net assets of Life-like Plants Operation of HK$55,477,000 at the completion date of disposal and the fair value of the aggregate consideration of HK$28,965,000 based on the fair value of (i) the promissory note in the amount of HK$13,445,000; and (ii) convertible note with initial recognition amount of HK$15,520,000 (Note 19) issued by the Kong Sun Group to the Group upon the completion of the disposal. The promissory note was fully settled to the Group during the current year.

Net cash outflow on disposal of assets and liabilities held for sale:

| | *HK$'000* |
|---|---|
| Bank balances and cash disposed of | 7,187 |

## 32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES UNDER AN ASSET SWAP ARRANGEMENT

On 5 December 2008, the Company, Wah Yeung Capital Resources Limited ("Wah Yeung"), an indirectly wholly-owned subsidiary of the Company, Solartech, Chau's Industrial Investments Limited ("Chau's Industrial"), a wholly-owned subsidiary of Solartech, Chau's Electrical Company Limited ("Chau's Electrical"), an indirect wholly-owned subsidiary of Solartech entered into three sale and purchase agreements and one set-off deed (collectively referred to as the "Asset Swap"), pursuant to which the Group agreed to acquire from Solartech (i) 100% equity interest in Solartech Enterprises Limited ("Solartech Enterprises") and its subsidiaries (the "Solartech Enterprises Group") and the unsecured and interest-free shareholder's loan owed by the Solartech Enterprises Group to Chau's Industrial (the "Solartech Enterprises Shareholder Loan"); and (ii) 100% equity interest in Fund Resources Limited ("Fund Resources") and its subsidiary (the "Fund Resources Group"), and the unsecured and interest-free shareholder's loan owed by the Fund Resources Group to Chau's Electrical (the "Fund Resources Shareholder Loan") in the consideration for the Group's disposal of (i) 100% equity interest in Modern China Enterprises Limited ("Modern China") and its subsidiaries (the "Modern China Group"); (ii) 100% equity interest in Hua Yi Copper Products Company Limited ("HY Products") and its subsidiary (the "HY Products Group"); and (iii) the unsecured and interest-free shareholder's loan owed by the HY Products Group to Wah Yeung (the "HY Products Shareholder Loan"). An additional consideration of HK$20,000,000 is also payable by the Group to the Solartech Group under the Asset Swap. The Asset Swap was completed on 4 February 2009. Further details are set out in the Company's circular dated 31 December 2008 and announcement dated 30 December 2008.

## 32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES UNDER AN ASSET SWAP ARRANGEMENT (continued)

### (i) Acquisition of subsidiaries under the Asset Swap

Accordingly, the Solartech Enterprises Group and the Fund Resources Group became subsidiaries of the Company and their results were consolidated to the Group's consolidated financial statements since the date of acquisition in the current year.

Details of net assets of subsidiaries acquired in the Asset Swap are as follows:

| | Solartech Enterprises Group | | | Fund Resources Group | | | |
|---|---|---|---|---|---|---|---|
| | Acquirees' carrying amount before the Asset Swap | Fair value adjustments | Sub-total | Acquirees' carrying amount before the Asset Swap | Fair value adjustments | Sub-total | Fair value as at the completion date |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Property, plant and equipment *(Note 14)* | 101,171 | – | 101,171 | 75,738 | 2,437 | 78,175 | 179,346 |
| Prepayments for acquisition of property, plant and equipment | – | – | – | 14,000 | – | 14,000 | 14,000 |
| Prepaid lease payments for land *(Note 15)* | 4,188 | 3,112 | 7,300 | 1,060 | 3,090 | 4,150 | 11,450 |
| Inventories | 10,061 | – | 10,061 | 6,242 | – | 6,242 | 16,303 |
| Debtors, deposits and prepayments | 20,772 | – | 20,772 | 14,157 | – | 14,157 | 34,929 |
| Bills receivable | 2,505 | – | 2,505 | 20 | – | 20 | 2,525 |
| Bank balances and cash | 2,530 | – | 2,530 | 1,327 | – | 1,327 | 3,857 |
| Creditors, other advances and accruals | (49,394) | – | (49,394) | (15,549) | – | (15,549) | (64,943) |
| The Solartech Enterprises Shareholder Loan and the Fund Resources Shareholder Loan | (89,979) | – | (89,979) | (77,085) | – | (77,085) | (167,064) |
| Taxation | (354) | – | (354) | – | – | – | (354) |
| Borrowings | (20,682) | – | (20,682) | (44,318) | – | (44,318) | (65,000) |
| Deferred tax liabilities *(Note 28)* | – | (778) | (778) | – | (1,380) | (1,380) | (2,158) |
| Net deficiency in assets of the Solartech Enterprises Group and the Fund Resources Group | | | | | | | (37,109) |
| Assignment of the Solartech Enterprises Shareholder Loan and the Fund Resources Shareholder Loan | | | | | | | 167,064 |
| | | | | | | | 129,955 |
| Satisfied by: | | | | | | | |
| Part of consideration on disposal of subsidiaries under the Asset Swap *(Note 32(ii))* | | | | | | | 129,955 |

Since the acquisition from the Asset Swap, the Solartech Enterprises Group and the Fund Resources Group contributed an aggregate amount of HK$49,533,000 to the Group's turnover and loss of HK$12,242,000 to the operating results for the year ended 30 June 2009.

## 32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES UNDER AN ASSET SWAP ARRANGEMENT (continued)

**(i) Acquisition of subsidiaries under the Asset Swap (continued)**

Had the acquisition taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year would have been HK$1,319,290,000 and HK$312,297,000, respectively.

**(ii) Disposal of subsidiaries under the Asset Swap**

The assets and liabilities of the Modern China Group and the HY Products Group disposed of in the Asset Swap are as follows:

| | *HK$'000* |
|---|---|
| Property, plant and equipment *(Note 14)* | 93,717 |
| Prepaid lease payments for land *(Note 15)* | 60,109 |
| Loan receivable | 44,407 |
| Inventories | 24,780 |
| Debtors, deposits and prepayments | 152,224 |
| Bills receivable | 20,949 |
| Pledged deposits | 27,551 |
| Bank balances and cash | 66,539 |
| Creditors, other advances and accruals | (60,063) |
| Bills payable | (75,000) |
| The HY Products Shareholder Loan | (107,570) |
| Taxation | (432) |
| Borrowings | (252,393) |
| Deferred tax liabilities *(Note 28)* | (14,514) |
| Net deficiency of assets disposal of the Modern China Group and the HY Products Group | (19,696) |
| Assignment of HY Products Shareholder Loan | 107,570 |
| Translation reserve realised upon disposal | (32,921) |
| Direct costs incurred for the disposal | 1,497 |
| Gain on Asset Swap | 53,505 |
| Consideration | 109,955 |
| Consideration satisfied by: | |
| Net deficiency in assets of the Solartech Enterprises Group and the Fund Resources Group and the Solartech Enterprises Shareholder Loan and the Fund Resources Shareholder Loan acquired *(Note 32(i))* | 129,955 |
| Amounts due to related companies as further consideration | (20,000) |
| | 109,955 |
| Net cash inflow/(outflow) on the Asset Swap: | |
| Bank balances and cash acquired | 3,857 |
| Bank balances and cash disposed of | (66,539) |
| | (62,682) |

## 33. ACQUISITION OF SUBSIDIARIES

On 22 April 2008, the Group acquired 100% equity interest of the Yeading Group for an aggregate consideration of HK$171,118,000. This transaction has been accounted for by the acquisition method of accounting. The Yeading Group is mainly engaged in holding the mining and exploration interests in two open iron-ore mines located in He Bei Province, the PRC, and sale of iron-ore concentration powder. Further details are set out in the Company's circular dated 31 December 2007 and announcement dated 22 April 2008.

The consideration was satisfied as to (i) RMB55,000,000 (equivalent to HK$61,118,000) in cash; and (ii) HK$110,000,000 by allotment and issue of 100,000,000 ordinary shares of the Company to the vendor (Note 29).

The net assets acquired in the above transaction were as follows:

| | Notes | Acquirees' carrying amount before combination HK$'000 | Fair value adjustments HK$'000 | Fair value HK$'000 |
|---|---|---|---|---|
| Net assets acquired: | | | | |
| Property, plant and equipment | 14 | 38,033 | – | 38,033 |
| Prepaid lease payments for land | 15 | 852 | – | 852 |
| Intangible asset – mining right | 16 | – | 158,831 | 158,831 |
| Inventories | | 2,290 | – | 2,290 |
| Debtors, other receivables, deposits and prepayments | | 1,858 | – | 1,858 |
| Bank and cash balances | | 1,341 | – | 1,341 |
| Creditors, other advances and accruals | | (37,970) | – | (37,970) |
| Deferred tax liabilities | 28 | – | (39,708) | (39,708) |
| Minority interest | | (2,374) | – | (2,374) |
| | | 4,030 | 119,123 | 123,153 |

| Consideration satisfied by: | HK$'000 |
|---|---|
| Cash paid | 61,118 |
| Shares of the Company – at fair value* | 56,000 |
| | 117,118 |
| Direct costs attributable to the acquisition | 6,035 |
| | 123,153 |

| Net cash outflow arising on acquisition: | HK$'000 |
|---|---|
| Consideration and direct costs paid in cash | 67,153 |
| Cash and cash equivalent balances acquired | (1,341) |
| | 65,812 |

* The fair value of the 100,000,000 ordinary shares of the Company issued as part of the consideration was determined with reference to the market share price of HK$0.56 of the Company's shares at the completion date of acquisition, at the total fair value of HK$56,000,000 of which HK$20,000,000 was credited to share capital and the remaining balance of HK$36,000,000 was credited to the share premium account (Note 29).

## 33. ACQUISITION OF SUBSIDIARIES (continued)

Included in turnover and profit for the prior year was HK$4,181,000 and HK$1,014,000 respectively attributable to the business generated by the Yeading Group since its acquisition on 22 April 2008.

Had the business combination been effected at the beginning of prior year, the turnover of the Group would have been HK$3,112,410,000, and the profit for that year would have been HK$12,359,000.

## 34. CAPITAL COMMITMENTS

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of: | | |
| Leasehold improvements | **33** | 3,549 |

## 35. LEASE COMMITMENTS

**The Group as lessee**

As at the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Within one year | **39** | 555 |
| In the second to fifth years inclusive | **–** | 210 |
| | **39** | 765 |

Leases are negotiated for an average term of three years and rentals are fixed for such period.

## 36. PLEDGE OF ASSETS

At 30 June 2009, the Group has pledged the following assets to secure general banking facilities granted to the Group. The carrying values of these assets are analysed as follows:

| | Notes | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|---|
| Property, plant and equipment | 14 | **98,194** | 52,738 |
| Prepaid lease payments for land | 15 | **14,345** | 28,800 |
| Bank deposits | | **–** | 26,268 |
| Bank deposits included in assets classified as held for sale | 31 | **–** | 5,536 |
| | | **112,539** | 113,342 |

Details of the pledged assets and corporate guarantees given by the related companies for the Group's banking facilities are set out in Note 41.

## 37. MAJOR NON-CASH TRANSACTION

As disclosed in Note 33, during the prior year, part of the consideration of acquisition of subsidiaries were satisfied as to HK$110,000,000 by allotment and issue of 100,000,000 ordinary shares ("Consideration Shares") of the Company to the vendor (Note 29). The fair value of the Consideration Shares of the Company determined with reference to the market share price of HK$0.56 of the Company's shares at the completion date of acquisition, at the total fair value of HK$56,000,000.

## 38. SHARE OPTION SCHEME

The share option scheme was adopted by the Company on 4 December 2003, which replaced its old share options scheme adopted in 1996. Under the share option scheme, the directors may, at their discretion, grant to full-time employees and executive directors of the Group the right to take up options to subscribe for shares of the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for services provided to the Company. The share option scheme, unless otherwise cancelled or amended, will expire on 3 December 2013. The subscription price of options is subject to a minimum which is the higher of the nominal value of a share, the closing price of the shares on the Stock Exchange on the date of grant and the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options.

The maximum number of unexercised share options permitted to be granted under the share option scheme must not exceed 10% of the shares of the Company in issue at any time. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the share option scheme exceeding 30% of the aggregate number of shares subject to the share option scheme, at the time it is proposed to grant the relevant option to such person.

The acceptance of an option, if accepted, must be made within 21 days from the date of the offer of the grant with a non-refundable payment of HK$1 from the grantee to the Company.

The total number of shares issued and to be issued upon exercise of options granted to each participant (including exercised, cancelled and outstanding options) in 12-month period must not exceed 1% of the shares in issue from time to time unless the same is approved by the shareholders.

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

During the year, share-based payments of HK$3,420,000 (2008: HK$7,959,000) has been charged to the consolidated income statement.

## 38. SHARE OPTION SCHEME (continued)

The following table discloses movements of the Company's share option scheme during the years:

### For the year ended 30 June 2009

| Capacity | Date of grant | Exercisable period | Vesting period | Exercise price HK$ | Number of share options: Outstanding at 1.7.2008 | Granted during the year | Exercised during the year (Note 29(ii)) | Cancelled and lapsed during the year | Outstanding at 30.6.2009 |
|---|---|---|---|---|---|---|---|---|---|
| Employees | 9 December 2005 | 1 January 2006 to 31 December 2008 | 9 December 2005 to 31 December 2008 | 0.275 | 336,000 | – | – | (336,000 ) | – |
| Directors and employees | 5 November 2007 | 1 February 2008 to 31 January 2011 | 5 November 2007 to 1 February 2008 | 0.910 | 17,700,000 | – | – | (17,700,000 ) | – |
| | | | 5 November 2007 to 31 January 2009 | | | | | | |
| | | | 5 November 2007 to 31 January 2010 | | | | | | |
| Directors | 19 May 2009 | 20 May 2009 to 19 May 2012 | Nil | 0.421 | – | 2,810,000 | (2,810,000 ) | – | – |
| Employees | 19 May 2009 | 20 May 2009 to 19 May 2012 | Nil | 0.421 | – | 1,825,000 | (1,825,000 ) | – | – |
| Others | 19 May 2009 | 20 May 2009 to 19 May 2012 | Nil | 0.421 | – | 13,065,000 | (13,065,000 ) | – | – |
| Others | 9 December 2005 | 1 January 2006 to 31 December 2008 | 9 December 2005 to 31 December 2008 | 0.275 | 4,000,000 | – | – | (4,000,000 ) | – |
| Others | 6 April 2006 | 1 May 2006 to 30 April 2011 | 6 April 2006 to 30 April 2008 | 0.495 | 30,600,000 | – | – | (30,600,000 ) | – |
| | | | 6 April 2006 to 30 April 2009 | | | | | | |
| | | | 6 April 2006 to 30 April 2009 | | | | | | |
| Others | 5 November 2007 | 1 August 2008 to 31 July 2011 | 1 November 2007 to 31 July 2008 | 0.910 | 15,000,000 | – | – | (15,000,000 ) | – |
| | | | 5 November 2007 to 31 July 2009 | | | | | | |
| | | | 5 November 2007 to 31 July 2010 | | | | | | |
| Total | | | | | 67,636,000 | 17,700,000 | (17,700,000 ) | (67,636,000 ) | – |

## 38. SHARE OPTION SCHEME (continued)

The following table discloses movements of the Company's share option scheme during the years:

### For the year ended 30 June 2008

| Capacity | Date of grant | Exercisable period | Vesting period | Exercise price HK$ | Number of share options: Outstanding at 1.7.2007 | Granted during the year | Exercised during the year (Note 29(ii)) | Lapsed during the year | Outstanding at 30.6.2008 | Exercisable period |
|---|---|---|---|---|---|---|---|---|---|---|
| Employees | 9 December 2005 | 1 January 2006 to 31 December 2008 | 9 December 2005 to 31 December 2008 | 0.275 | 1,008,000 | – | (672,000 ) | – | 336,000 | 1 January 2008 to 31 December 2008 |
| Directors and employees | 5 November 2007 | 1 February 2008 to 31 January 2011 | 5 November 2007 to 1 February 2008 | 0.910 | – | 17,700,000 | – | – | 17,700,000 | 1 February 2008 to 31 January 2011 |
| | | | 5 November 2007 to 31 January 2009 | | | | | | | 1 February 2009 to 31 January 2011 |
| | | | 5 November 2007 to 31 January 2010 | | | | | | | 1 February 2010 to 31 January 2011 |
| Others | 9 December 2005 | 1 January 2006 to 31 December 2008 | 9 December 2005 to 31 December 2008 | 0.275 | 5,500,000 | – | (1,500,000 ) | – | 4,000,000 | 1 January 2008 to 31 December 2008 |
| Others | 6 April 2006 | 1 May 2006 to 30 April 2011 | 6 April 2006 to 30 April 2008 | 0.495 | 40,800,000 | – | – | (10,200,000 ) | 30,600,000 | 1 May 2008 to 30 April 2009 |
| | | | 6 April 2006 to 30 April 2009 | | | | | | | 1 May 2009 to 30 April 2010 |
| | | | 6 April 2006 to 30 April 2010 | | | | | | | 1 May 2010 to 30 April 2011 |
| Others | 5 November 2007 | 1 August 2008 to 31 July 2011 | 1 November 2007 to 31 July 2008 | 0.910 | – | 15,000,000 | – | – | 15,000,000 | 1 August 2008 to 31 July 2011 |
| | | | 5 November 2007 to 31 July 2009 | | | | | | | 1 August 2009 to 31 July 2010 |
| | | | 5 November 2007 to 31 July 2010 | | | | | | | 1 August 2010 to 31 July 2011 |
| Total | | | | | 47,308,000 | 32,700,000 | (2,172,000 ) | (10,200,000 ) | 67,636,000 | |

## 38. SHARE OPTION SCHEME (continued)

The fair value of share options granted to employees of the Group, directors of the Company and other parties providing similar services during the year, determined at the date of grant of the shares options, is expensed over the vesting period. These fair values were calculated using the Black-Scholes Options Pricing Model. The inputs into the model were as follows:

| **Date of grant** | **15 May 2009** |
|---|---|
| Share price on the date of grant | HK$0.400 |
| Exercise price | HK$0.421 |
| Expected volatility | 116.45% |
| Expected life | 1.5 years |
| Risk-free rate | 0.31% p.a. |
| Expected dividend yield | Nil |

The volatility of share options granted during the year were generated from Bloomberg based on the Company's 390 day historical shares prices before the dates of valuation, respectively.

The weighted average closing price of the Company's shares immediately before the dates on which share options were exercised during the year was HK$0.65 (2008: HK$0.72) per share.

At the balance sheet date and the date of the approval of these financial statements, the Company had no share option outstanding under the share option scheme.

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

## 39. BANK BALANCES AND CASH (INCLUDING PLEDGED DEPOSITS)

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

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Pledged bank deposits and bank balances and cash were denominated in the following currencies: | | | | |
| Hong Kong Dollar | **82,246** | 43,017 | **21,135** | 140 |
| RMB | **6,362** | 62,575 | **–** | – |
| U.S. Dollar | **380** | 68,073 | **1** | 24 |
| Euro | **12** | – | **–** | – |
| | **89,000** | 173,665 | **21,136** | 164 |

## 39. BANK BALANCES AND CASH (INCLUDING PLEDGED DEPOSITS) (continued)

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 40. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees.

Pursuant to the PRC government regulations, the Group is required to contribute to a central pension scheme in respect of certain of the Group's employees in the PRC based on a certain percentage of the salaries of those employees and there is no forfeited contributions under the central pension scheme.

The retirement benefits cost charged to the consolidated income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

During the year, the Group made retirement benefits schemes contributions of HK$989,000 (2008: HK$785,000).

## 41. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, during the year, the Group entered into the following transactions with related companies (2008: fellow subsidiaries and related companies):

| | **2009**<br>***HK$'000*** | 2008<br>*HK$'000* |
|---|---|---|
| Rental expenses of office premises | **251** | 180 |
| Rental income of staff quarters | **537** | 1,301 |
| Management fee income | **646** | 3,023 |

During the year, the Group sold goods to and purchased goods from the related companies (2008: fellow subsidiaries and related companies) in the amount of HK$149,930,000 (2008: HK$324,321,000) and HK$1,498,000 (2008: HK$Nil) respectively.

The above transactions were determined with reference to the terms mutually agreed between the Group and the relevant parties.

At 30 June 2008, certain bank deposits and bank balances and property, plant and equipment of related companies with an aggregate carrying amount of HK$18,000,000 and corporate guarantees given by the related companies have been pledged against the banking facilities granted to the Group. No such arrangement was made during the year.

**Compensation of key management**

The key management of the Group comprises all directors and the five highest paid employees, details of their remuneration are disclosed in Note 8.

## 42. 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 includes the borrowings disclosed in Note 27, bank balances and cash in Note 39 and equity attributable to equity holders of the Company, comprising share capital, reserves and retained earnings/(accumulated losses) as disclosed in the consolidated statement of changes in equity.

The Group's 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. Based on recommendations of management, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or redemption of existing debts.

The gearing ratio at the balance sheet dates was as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Debts | **108,304** | 599,278 |
| Bank balances and cash | **(89,000)** | (173,665) |
| Net debts | **19,304** | 425,613 |
| Equity | **397,126** | 707,173 |
| Net debt to equity ratio | **5%** | 60% |

## 43. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 30 June 2009 and 2008 may be categorised as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | |
| Derivative financial assets at fair value | **46,753** | 625 |
| Loans and receivables (including bank balances and cash) at amortised cost | **164,731** | 661,424 |
| **Financial liabilities** | | |
| Derivative financial liabilities at fair value | **–** | 372 |
| Financial liabilities measured at amortised cost | **163,269** | 734,546 |

## 44. POST BALANCE SHEET DATE EVENTS

(i) On 26 May 2009, the Company and Kingston Securities Limited ("Kingston Securities") entered into a placing agreement pursuant to which the Company has conditionally agreed to place through Kingston Securities on a fully underwritten basis to not fewer than six independent third parties, an aggregate of 316,470,000 shares at HK$0.20 per share at an aggregate consideration before issuing expenses of HK$63,294,000, of which HK$3,165,000 was credited to share capital and the remaining balance of HK$60,129,000 was credited to the share premium account. The placement was completed on 16 July 2009. Further details are set out in the Company's announcement and circular dated 26 May 2009 and 9 June 2009, respectively.

(ii) On 20 August 2009, Hua Yi Copper (BVI) Company Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Jumbo Wise Investments Limited, an independent third party for the disposal of its 100% entire equity interest in Fortune Point Limited ("Fortune Point") and its subsidiaries (the "Fortune Point Group") at a cash consideration of HK$4.5 million as set out in the Company's announcement dated 20 August 2009. The disposal of the Fortune Point Group was completed on 24 August 2009.

## 45. CONTINGENT LIABILITY

**Environmental contingencies**

To date, the Group has not incurred any significant expenditure for environmental remediation, and is currently not involved in any environmental remediation, and has not accrued any further amounts for environmental remediation relating to its operations. Under the existing legislation, management believes that there is no probable liability that will have a material adverse effect on the financial position or operating results of the Group and therefore, no provision was made as at 30 June 2008 and 2009. The PRC government, however, has moved, and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to coal mines and land development areas, whether operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The exact amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislation cannot reasonably be estimated at present, and could be material.

## 46. COMPARATIVE AMOUNTS

Decrease in pledged deposits of HK$46,315,000 included in investing activities in the 2008 consolidated cash flow statement has been reclassified to financing activities to confirm with current year's classification.

# Financial Summary

## RESULTS

| | | Year ended 30 June | | | Period from 15 January 2004 to 30 June |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | | (Restated) |
| Turnover | **1,197,276** | 3,075,921 | 2,748,039 | 1,513,166 | 1,453,821 |
| (Loss)/profit before taxation | **(360,696)** | 22,308 | (14,806) | 109,489 | 28,768 |
| Taxation | **35,360** | (11,354) | 652 | (19,185) | (8,325) |
| (Loss)/profit for the year | **(325,336)** | 10,954 | (14,154) | 90,304 | 20,443 |
| (Loss)/profit attributable to: | | | | | |
| Equity holders of the company | **(322,603)** | 10,663 | (14,154) | 90,304 | 20,443 |
| Minority interest | **(2,733)** | 291 | – | – | – |
| | **(325,336)** | 10,954 | (14,154) | 90,304 | 20,443 |

## ASSETS AND LIABILITIES

| | | | At 30 June | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | | (Restated) |
| Total assets | **578,234** | 1,546,321 | 1,327,063 | 1,150,298 | 678,752 |
| Total liabilities | **(181,108)** | (839,148) | (846,008) | (649,289) | (359,813) |
| Shareholders' funds | **397,126** | 707,173 | 481,055 | 501,009 | 318,939 |

*Note:* The results for the year ended 31 March 2004 ("Relevant Periods") have been extracted from the Company's circular to the shareholders dated 14 June 2004. The total assets in the Relevant Periods included the plant and machinery and land and buildings held by certain subsidiaries of Solartech International Holdings Limited as if the group structure as at 31 March 2004 had been in existence throughout the Relevant Periods.