North Mining Shares Company Limited

北方礦業股份有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 433)

Annual Report 2012

CONTENTS

Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	4
Biographical Details of Directors	10
Report of the Directors	11
Report on Corporate Governance	19
Independent Auditor's Report	27
Consolidated Income Statement	30
Consolidated Statement of Comprehensive Income	31
Consolidated Statement of Financial Position	32
Statement of Financial Position	34
Consolidated Statement of Changes in Equity	35
Consolidated Statement of Cash Flows	36
Notes to Consolidated Financial Statements	38
Summary of Financial Information	108

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Gao Yuan Xing *(Chairman and Chief Executive Officer)*
Qian Yi Dong *(Deputy Chairman)*
Zhang Jia Kun

Independent Non-executive Directors

Mu Xiangming
Cheng Chak Ho
Lo Wa Kei Roy

COMPANY SECRETARY AND AUTHORISED REPRESENTATIVE

Yuen Wing Kwan

AUDIT COMMITTEE

Mu Xiangming *(Chairman)*
Cheng Chak Ho
Lo Wa Kei Roy

REMUNERATION COMMITTEE

Lo Wa Kei Roy *(Chairman)*
Cheng Chak Ho
Qian Yi Dong

AUDITORS

Elite Partners CPA Limited
Certified Public Accountants

PRINCIPAL BANKERS

Citibank
Standard Chartered Bank (Hong Kong) Limited
HSBC
CITIC Ka Wah Bank Limited
Wing Hang Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 3609–10, 36/F
China Resources Building
No. 26 Harbour Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LISTING INFORMATION

Stock Code: 433, Hong Kong

WEBSITE

www.northmining.com.hk

CHAIRMAN'S STATEMENT

To the shareholders,

On behalf of the board of directors (the "Board" or "Directors") of North Mining Shares Company Limited (the "Company", together with its subsidiaries, collectively the "Group"), I am pleased to present the annual report of the Company for the year ended 31 December 2012.

Amid continuing uncertainty in the global economic environment, the Group remained focused on its long-term strategy for enhancing its position in the mining industry in the PRC. Concerns over the continuing financial difficulties in the eurozone and the US fiscal cliff in the second half of 2012 put significant downward pressure on international economic activity.

Mining operations and, in particular, sale of molybdenum, continued as the principal activities of the Group. For the year ended 31 December 2012, the Group recorded a turnover attributable to the sales of molybdenum of approximately HK$345,561,000, representing an increase of approximately 0.6% as compared to the year ended 31 December 2011. The Group achieved in total turnover to approximately HK$369,702,000, representing a decrease of approximately 5.5% as compared to approximately HK$391,035,000 for the year ended 31 December 2011. Such decrease was mainly due to the decrease in the trading of sulfuric acid from approximately HK$29,212,000 for the year ended 31 December 2011 to approximately HK$ nil for the year ended 31 December 2012.

In order to maintain the Group's sustainability and value over the longer term, the Group will continue to look for suitable investment opportunities and projects characterized by expected stable cash inflows and simple management mechanism. These investments may include possible acquisition of mines of rare metal with potential and value.

Finally, I would like to take this opportunity to express our sincere gratitude to our shareholders for their trust and long term support, and to all the management and staff for their continuous hard work and dedication over the years.

Gao Yuan Xing
Chairman
25 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL FINANCIAL PERFORMANCE

During the year under review, the Group recorded a turnover of approximately HK$369,702,000, representing a decrease of 5.46% over 2011 (2011: approximately HK$391,035,000). Turnover attributable to mining business operations, which is the Group's major operation, amounted to approximately HK$345,561,000 (2011: approximately HK$372,856,000), represents approximately 93.47% (2011: 95.4%) of the Group's total turnover for the year ended 31 December 2012. For the year ended 31 December 2012, the Group recorded a loss attributable to owners of the Company of approximately HK$852,471,000 (2011: loss of approximately HK$487,522,000), representing an increase in loss of 74.86% as compared to the year ended 31 December 2011.

The increase in the loss is mainly due to the increase in the fair value loss of financial liabilities designated as at FVTPL amounted to approximately HK$624,009,000 (2011: approximately HK$23,000,000).

BUSINESS REVIEW

The principal activities of the Group are (i) mining operations — exploitation, exploration and trading of mineral resources; (ii) property leasing operations; and (iii) property management operations. An analysis of each of these business segments is presented below:

Mining Operations — Exploitation and Exploration and Trading of Mineral Resources

*** Shaanxi Province Luo Nan Xian Jiu Long Kuang Ye Company Limited ("Jiu Long Kuang Ye") (陝西省洛南縣九龍礦業有限公司)**

During the year under review, the volume of molybdenum concentrate produced by the molybdenum mine operated by Jiu Long Kuang Ye was about 3,946 tonnes. The sales volume of molybdenum concentrate was about 5,412 tonnes (2011: 4,320 tonnes). The grade of molybdenum concentrate was approximately 42%–45%. The average selling price of molybdenum concentrate was about HK$63,851 per tonne. During the year under review, Jiu Long Kuang Ye contributed a revenue of approximately HK$345,561,000 (2011: approximately HK$372,856,000) to the Group, of which approximately HK$Nil was attributable from sales of sulfuric acid (2011: HK$29,212,000). The cost of sales was approximately HK$335,223,000 (2011: approximately HK$252,106,000). Gross profit amounted to approximately HK$27,928,000 (2011: approximately HK$120,750,000) and the profit margin was 7.69%, representing a decrease of approximately 24.31% as compared to 32% in 2011. The decrease in profit margin was mainly due to the decrease in the average selling price of molybdenum concentrate about HK$79,547 per tonne in 2011 to HK$63,851 per tonne in 2012. For the year ended 31 December 2012, net loss attributable to Jiu Long Kuang Ye was HK$327,423,000 (2011: approximately loss of HK$396,661,000) which was mainly attributable to the amortization of mining rights of approximately HK$84,066,000 (2011: HK$139,522,000) and impairment loss on mining rights of approximately HK$299,582,000 (2011: HK$436,801,000). Despite of the effect of such amortisation and impairment losses recognized during the year, Jiu Long Kuang Ye should have made an operating profit after income tax contribution of approximately HK$56,225,000.

** For identification purposes only*

In order to determine the value in use of the Company's mining operation, the Directors hired an independent professional valuation firm who has used the basis of Discount Cash Flow valuation method (the "DCF"). The sources and inputs of such DCF mainly consist of (i) sales of molybdenum concentrate; (ii) major operating expenses. The assumptions used in forecasting the (i) sales of molybdenum concentrate are the average molybdenum price over the past year, supported by the corresponding molybdenum production plan while that of (ii) major operating expenses are determined based on actual daily operating expenditures, taking into account management's best estimate of future cash outflow including changes in working capital and the incremental capital expenditure foreseeable to be incurred. In the opinion of the Directors of the Company, such adopted DCF method would best reflect the value in use of the Company's mining operation.

During the year, there is no change in valuation method used and the Directors have consensus to adopt a consistent valuation methodology and accounting policy in accounting for such mining operation over time given that no fundamental changes in the mining industry and such external environment will occur.

The discount rate used for the above DCF projections is formulated by the Weighted Average Cost of Capital ("WACC"). The WACC included two major components which are cost of equity and cost of debt. The cost of equity is determined by assessing key assumptions of (i) market risk premium and (ii) beta coefficient. The WACC adopted is 13.12%.

The value in use as derived was amounted to approximately HK$2,094,611,000 which is lower than the carrying amount of mining right which is amounted to approximately HK$2,394,193,000. As a result, the Directors concluded that impairment on such mining right is provided at approximately HK$299,582,000 as at 31 December 2012.

Property leasing operations

The Group did not have any investment properties held for leasing as at 31 December 2012. In view of the significant fluctuation of property market in the PRC, the directors of the Company considered to scale down the Group's leasing operation. Nevertheless, the Group will identify the possible investment property in the future when the property market in the PRC become stable.

Property management operations

For the year ended 31 December 2012, the turnover generated from the property management operation was approximately HK$6,551,000, representing a growth of approximately 25.79% over the year ended 31 December 2011 of approximately HK$5,208,000. Such increase was mainly because the Group successfully solicited another property management contract during the year of 2012, which led to an increase in turnover attributable to the property management operation. As at 31 December 2012, the Group had two property management contracts.

Other Business

Associates

*** Jilin Province Rui Sui Kuang Ye Company Limited* ("Rui Sui Kuang Ye") (吉林省瑞穗礦業有限公司)**
On 22 March 2012, Golden Finance Company Limited ("Golden Finance"), a wholly-owned subsidiary of the Company, as the vendor entered into a disposal agreement (the "Disposal Agreement") with the purchaser, in relation to the disposal of 26% equity interests of Rui Sui Kuang Ye (the "Sale Shares") for a consideration of HK$600,000,000 (the "Disposal Agreement"). The consideration has been satisfied by way of promissory note issued by the purchaser to Golden Finance upon completion of the Disposal Agreement. The promissory note is secured by the Sale Shares pursuant to the share pledge agreement entered into between Golden Finance and the purchaser. After the disposal of the Sale shares, Rui Sui Kuang Ye has been classified as an associated company of the Company.

Other Financial Assets

As at 31 December 2012, the Group had three promissory notes, namely Ding Jin Promissory Notes, Rui Sui Promissory Notes and Yi Tong Promissory Notes, details of which are set out below:

Ding Jin Promissory Notes

During the year ended 31 December 2011, the Group entered into a subscription agreement with Shaanxi Ding Jin Mining Company Limited ("Ding Jin"), the Issuer, pursuant to which the Group is eligible to subscribe for the promissory notes issued by Ding Jin. The principal amount of the promissory notes was HK$500 million and carried at interest of HK$100 million, payable on the maturity date, which is 5 years from subscription.

Rui Sui Promissory Notes

During the year ended 31 December 2012, the Group disposed of 26% equity interests in Rui Sui, for an aggregate consideration of HK$600 million, which was satisfied by a promissory notes issued by the purchaser with maturity date of 3 years from the issue date of the promissory notes.

Yi Tong Promissory Notes

During the year ended 31 December 2012, the Group disposed of 70% equity interests in Heilongjiang Yi Tong Mining Company Limited ("Yi Tong") at a consideration of HK$230 million, of which approximately HK$46 million was settled by cash and approximately HK$184 million was settled by issuance of the promissory note issued by the purchaser with maturity date of 3 years from the issue date of the promissory notes.

Material Acquisition and Disposal

On 22 March 2012, Golden Finance Company Limited, a wholly owned subsidiary of the Company, entered into a disposal agreement with independent third parties to dispose of 26% equity interest of Rui Sui for an aggregated consideration of HK$600 million.

Pursuant to a disposal agreement between Shan Xi Tong Jin Mining Company Limited and the Company signed on 17 September 2012, the Company disposed of its 70% equity interests in Yi Tong at a total consideration of HK$230,000,000.

** For identification purposes only*

The Directors are of the view that it is in the interests of the Group to realize the value of its shareholding in Rui Sui and Yi Tong so as to reduce the financial pressure arising from the need for substantial capital investment for operations of Rui Sui and Yi Tong, and also to increase the cash resources of the Group for the further development and expansion of its mining business and further investment in the mineral resources sector.

Contingent assets

During the year under review, the Group received no dividend from Xian Communication University Second Affiliated Middle School Southern District. The transfers of land and property rights are still being processed. The school was a compensation asset receivable as a result of a fraud transaction taken by a minority shareholder of the Group's subsidiary who had surrendered a property development project held by the Group to Xian Government without the Company's knowledge or consent in previous years.

PROSPECTS

In 2013, the global economy still faces more uncertainty factors, including the possible continue slowdown in global economy and the sovereign debt crisis in the euro zone. The Group will continue to keep abreast of the changing market conditions and will adjust its business and operation strategies.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflow. During the year under review, the Group recorded a net cash inflow of approximately HK$344,196,000 (2011: outflow of approximately HK$114,076,000) which was mainly arising from the placing of 300,000,000 new Shares at a price of HK$0.26 per Share and the issue of the convertible notes in the amount of HK$252,000,000. In 2011, the Company entered into a convertible note option agreement, pursuant to which the Company has the right to request the potential subscribers to subscribe for the convertible notes to be issued by the Company for cash up to HK$754,000,000. Details were disclosed in the Company's announcement dated 19 July 2011. With the amounts of cash on hand amounted to approximately HK$368,501,000 as at 31 December 2012 (2011: approximately HK$24,305,000), together with the proposed convertible notes which may be issued at the option of the Company, the Board considered that the Group's liquidity position is healthy.

As at 31 December 2012, the Group had outstanding bank borrowings in the amount of approximately HK$94,611,000 (2011: approximately HK$59,870,000). The Group's gearing ratio as at 31 December 2012 was approximately 3.4% (2011: 1.9%). The increase in gearing ratio was mainly due to the increase in interest bearing bank borrowings during the year. The Board considered that the gearing ratio remains at low level compared to equity attributable to owners of the Company and that the Group is of good liquidity. As at 31 December 2012, the Group's current ratio was approximately 0.6 (2011: approximately 1.3). The decrease in current ratio was mainly due to the increase in current liabilities in the Group's mining operation during the year under review. As at 31 December 2012, the Group's debt to equity ratio was approximately 0.59 (2011: approximately 0.34). The increase in debt to equity ratio was mainly due the increase in borrowing during the year under review. The ratio was calculated by dividing the total liabilities of approximately HK$1,652,615,000 (2011: approximately HK$1,089,226,000) by equity attributable to owners of the Company of approximately HK$2,782,507,000 (2011: approximately HK$3,234,235,000). Overall, the Board believes that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

CAPITAL STRUCTURE AND TREASURY POLICIES

Capital Structure

The Group's capital structure as at 31 December 2012 mainly comprised of current assets of approximately HK$652,204,000 (2011: approximately HK$386,449,000), current liabilities of approximately HK$1,047,140,000 (2011: approximately HK$297,957,000) and equity attributable to owners of the Company of approximately HK$2,782,507,000 (2011: approximately HK$3,234,235,000). Current assets mainly comprised of cash and cash equivalents of approximately HK$368,501,000 (2011: approximately HK$24,305,000), inventories of approximately HK$104,813,000 (2011: approximately HK$182,142,000) and prepayments, deposits and other receivables of approximately HK$115,609,000 (2011: approximately HK$168,539,000). Current liabilities mainly comprised of borrowings of approximately HK$94,611,000 (2011: approximately HK$59,870,000), trade payables of approximately HK$115,602,000 (2011: approximately HK$73,864,000), accruals and other payables of approximately HK$57,288 (2011: approximately HK$80,210,000), other financial liabilities of approximately HK$647,009,000 (2011: HK$23,000,000) and amounts due to related parties of approximately HK$67,577,000 (2011: HK$60,755,000).

Convertible Note Option Agreement

2011 CN Option Agreement

As disclosed in the announcement of the Company dated 19 July 2011, the Company, as the issuer, entered into the Convertible Note Option Agreement ("2011 CN Option Agreement") with the potential subscribers. The CN Option (as defined in the announcement) entitled the Company to require each potential subscriber to, and the potential subscribers are also entitled to, fully or partially subscribe for the convertible notes ("2011 Convertible Notes") as agreed under the 2011 CN Option Agreement within three years ending on 19 July 2014. If all of the CN Option are issued and validly exercised, the Company will issue an aggregate principal amount of up to HK$754,000,000 of 2011 Convertible Notes. Assuming the conversion rights attached to the 2011 Convertible Notes are exercised in full at the conversion price of HK$0.29, a total of 2,600,000,000 conversion shares (the "Conversion Shares") will be allotted and issued, representing approximately 18.57% of the existing issued share capital of the Company and approximately 15.66% of the entire issued share capital when all the Conversion Shares are allotted and issued.

2012 CN Option Agreement

As disclosed in the announcement of the Company dated 31 May 2012, the Company, as the issuer, entered into the Convertible Note Option Agreement ("2012 CN Option Agreement") with Mr. Soong Kung Yuan ("Mr. Soong"). The CN Option (as defined in the announcement) entitled the Company to require Mr. Soong to, and Mr. Soong is also entitled to, fully or partially subscribe for the convertible notes ("2012 Convertible Notes") as agreed under the 2012 CN Option Agreement within two years ending on 31 May 2014.

As disclosed in the announcement of the Company dated 3 December 2012, Mr. Soong fully subscribed for the 2012 Convertible Notes in the amount of HK$252,000,000. As disclosed in the Company's announcement dated 17 December 2012, Mr. Soong exercised in full the conversion right attached to the 2012 Convertible Notes in the principal amount of HK$252,000,000. Accordingly, the Company allotted and issued a total of 700,000,000 conversion shares (the "Conversion Shares") to Mr. Soong at the conversion price of HK$0.36 per Conversion Share pursuant to the terms and conditions of the 2012 Convertible Notes. The Conversion Shares represent approximately 5% of the entire issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

The Board considers that the entering into of the 2011 CN Option Agreement and 2012 CN Option Agreement represents the opportunities to strengthen the financial position of the Group while broadening the investor base and capital base of the Group. The Board is of a view that the agreements were entered into based upon normal commercial terms following arm's length negotiations between the Company and the potential subscribers. The Board believes the terms of the agreements are fair and reasonable and the subscription is in the interests of the Company and the Shareholders as a whole.

Placing of Shares

As disclosed in the Company's announcement dated 31 May 2012, the Company entered into a placing agreement with Mr. Soong in relation to the placing of 300,000,000 new Shares at a price of HK$0.26 per Share (the "Placing"). The Placing was completed on 7 June 2012.

Treasury Policies

During the year ended 31 December 2012, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. The Board does not consider that the Group is significantly exposed to any foreign currency exchange risk. It is the Group's treasury policy to manage its foreign currency exposure whenever such financial impact is material to the Group. For the year ended 31 December 2012, the Group did not employ any financial instruments for hedging purpose and was not engaged in foreign currency speculative activities.

BANK BORROWING AND CHARGES OF GROUP ASSETS

As at 31 December 2012, the Group had bank borrowings amounted to approximately HK$94,611,000 (2011: HK$59,870,000). As at 31 December 2012, the Group's interest-bearing bank loans were carried at effective interest rates from 6.9% to 9.6% per annum and were secured by (i) a guarantee from an independent insurance company; (ii) the molybdenum concentrate as included in inventories amounted to 1,380 tons; (iii) guarantees from a subsidiary of the Group and the subsidiary's minority shareholders.

Included in interest bearing bank loans, amount of RMB26,900,000, with a clause in their terms that gives the lender an overriding right to demand repayment without notice or at its sole discretion, is classified as current liabilities even though the Directors do not expect that the lender would exercise their rights to demand repayment.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no significant contingent liabilities (2011: Nil).

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2012, the Group employed 689 full time employees (2011: 760 employees). Employees remuneration packages are structured and reviewed with reference to the nature of the jobs, market condition and individual merits. The Group also provides other employee benefits including year-end double pay, mandatory provident fund and medical insurance.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Gao Yuan Xing, aged 58, was appointed as the Chairman of the Board, the Chief Executive Officer and an Executive Director of the Company on 15 March 2011. Mr. Gao has completed the course of Senior Manager Class in Shanghai Institute of Foreign Trade. He has abundant experience in energy management, and worked in the foreign affairs office of Shanghai Municipal Government for many years. Mr. Gao had also been senior management in a number of international, mainland investment and commercial companies.

Mr. Qian Yi Dong, aged 27, was appointed as an Executive Director of the Company on 15 March 2011 and was then appointed as the Deputy Chairman of the Board on 21 April 2011. He is also currently a director of certain subsidiaries of the Company. Mr. Qian graduated from Beijing Normal University Zhuhai majored in electronic commerce. He is also a director of Universal Union Limited and China Wan Tai Group Limited, the controlling shareholders of the Company.

Mr. Zhang Jia Kun, aged 65, was appointed as an Executive Director of the Company on 14 August 2009, and is also currently a director of certain subsidiaries of the Company. He graduated from Shanghai Education College and Shanghai Business College where he majored in professional mathematics and financial management respectively. He has extensive experience in financial management. Currently, he is the general manager of finance of Wan Tai Group Limited and the legal representative and chairman of the Company's wholly-owned subsidiary Shanghai Yuan Bei Trading Company Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Mu Xiangming, aged 57, was appointed as an Independent Non-executive Director of the Company on 20 April 2001. He is also the Chairman of the Audit Committee of the Company. Mr. Mu graduated from Fudan University (Shanghai) Law School with an L.L.B. and from University of Oregan (USA) Law School with an L.L.M. Mr. Mu had been a member of Shanghai Municipal Government Foreign Economic Trade Committee from 1983 to 1986 and a practicing lawyer in a US law firm for nearly four years. He is now a partner of a law firm in Shanghai, the PRC.

Dr. Cheng Chak Ho, aged 43, was appointed as an Independent Non-executive Director of the Company on 12 April 2001. Dr. Cheng obtained a Bachelor of Science in Building, a Master degree in Urban Design from the University of Hong Kong, a Bachelor of Architecture, a Master of Science in Engineering (Mechanical Engineering), and a Doctor of Philosophy in Economics from the Queen's University of Brighton. He has over 22 years' experience in property development, property investment, valuation and corporate finance. Among others, Dr. Cheng is a Fellow of: Institute of Public Accountants, Institute of Financial Accountants, The Royal Society of Medicine, The Hong Kong Institute of Directors, The Society of Operations Engineers, and Institution of Plant Engineers.

Mr. Lo Wa Kei Roy, aged 41, was appointed as Independent Non-executive Director of the Company on 25 September 2004. He is a fellow member of the Hong Kong Institute of Certified Public Accountants (Practicing), a member of Institute of Chartered Accountants in England and Wales and a fellow member of CPA Australia. Mr. Lo has over 20 years experience in auditing, accounting and finance. In addition, he was an independent non-executive director of Goldpoly New Energy Holdings Limited, he is currently an independent non-executive director of Sun Hing Vision Group Holdings Limited, China Zhongwang Holdings Limited and Sheen Tai Holdings Group Company Limited, all companies listed on The Stock Exchange of Hong Kong Limited.

REPORT OF THE DIRECTORS

The Directors of the Company present their report and the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are mining operations — exploitation and exploration, trading of mineral resources, property leasing operations and property management operations. Details of the Group's principal subsidiaries are set out in Note 19 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in Note 7 to the consolidated financial statements.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2012 and the state of the Company's and the Group's affairs as at 31 December 2012 are set out in the consolidated financial statements on pages 32 to 34.

The cashflows of the Group are set out in the consolidated financial statements on pages 36 to 37.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012 (2011: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group's single largest customer and supplier accounted for approximately 35% (2011: 29%) and 20% (2011: 5%) respectively, of the Group's total operating revenue and cost of sales. The Group's five largest customers and suppliers accounted for approximately 77% (2011: 67%) and 30% (2011: 21%) of the Group's total operating revenue and cost of sales respectively.

At no time during the year had the Directors, their associates or any shareholder of the Company (which, to the knowledge of the Directors, owns more than 5% of the Company's share capital) have any interest in these major customers and suppliers.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 35 and Note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVE

Details of the amount of the Company's reserve distributable to shareholders as at 31 December 2012 are set out in Note 28 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 16 to the consolidated financial statements.

SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2012 are set out in Note 19 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in Note 27 to the consolidated financial statements.

CHANGES IN THE INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Rules Governing the listing of securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the changes of information of Directors are set out below:

(a) Mr. Lo Wa Kei Roy was appointed as an independent non-executive director of Sheen Tai Holdings Group Company Limited on 22 June 2012.

(b) The annual remuneration package of Mr. Gao Yuan Xing, Chairman of the Company, has been adjusted to HK$546,000 with effect from 1 May 2012.

(c) The annual remuneration package of Mr. Qian Yi Dong, Deputy Chairman of the Company, has been adjusted to HK$273,000 with effect from 1 May 2012.

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 shares during the year ended 31 December 2012.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the financial year and up to the date of this report were:

Executive Directors
Gao Yuan Xing *(Chairman and Chief Executive Officer)*
Qian Yi Dong *(Deputy Chairman)*
Zhang Jia Kun
Zhao Qing (resigned on 6 January 2013)

Non-executive Director
Fan Wei Guo (re-designated as non-executive director on 17 May 2012 and then resigned on 1 March 2013)

Independent Non-executive Directors
Mu Xiangming
Cheng Chak Ho
Lo Wa Kei Roy

In accordance with the Company's bye-laws 87(1) and (2), Mr. Qian Yi Dong and Mr. Cheng Chak Ho will retire from office by rotation, and both of them being eligible, offer themselves for re-elections at the forthcoming annual general meeting.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 25 May 2011, the Company adopted the share option scheme (the "Share Option Scheme"). A summary of the Share Option Scheme is as follows:

(1) Purposes of the Share Option Scheme

The principal purposes of the Share Option Scheme are to enable the Group and any entity in which the Group holds any equity interest ("Invested Entity") to recruit and retain high calibre persons and attract human resources that are valuable to the Group or any Invested Entity, to recognise the contributions of the eligible persons to the growth of the Group or any Invested Entity by rewarding them with opportunities to obtain ownership interest in the Company and to motivate and give incentives to these eligible persons to continue to contribute to the long term success and prosperity of the Group or any Invested Entity.

(2) Who may join

Persons who are eligible to the Share Option Scheme ("Eligible Person(s)") are any employee (whether full time or part time), senior executive or officer, manager, director (including executive, non-executive and independent non-executive director) or consultant of the Company, any of its affiliates or any Invested Entity, or any of their respective associates, chief executives, or substantial shareholders, or any person, who, as determined by the Board, have contributed or will contribute to the growth and development of the Group or any Invested Entity.

(3) Total number of shares available for issue

Total number of shares available for issue are 1,300,261,670, representing approximately 10% of the issued share capital of the Company as at the date of the AGM held on 25 May 2011.

(4) Maximum entitlement of each eligible person

The maximum number of shares issued and to be issued upon exercise of the options granted to each Eligible Person under the Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) in any 12-month period must not exceed one (1) per cent. of the shares in issue.

(5) Maximum entitlement of each eligible person who is a connected person

(a) each grant of option to an Eligible Person who is a director, chief executive or substantial shareholder of the Company or any of their respective associates, under the Share Option Scheme must be approved by the independent non-executive director(s) of the Company (excluding the independent non-executive director who is the grantee of the option); and

(b) where the Board proposes to grant any option to an Eligible Person who is a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, and such option, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding options) in the past 12-month period up to and including the date of grant:

(i) representing in aggregate more than 0.1 per cent. of the total number of Shares in issue; and

(ii) having an aggregate value (on the assumption that all such Options had been exercised and all Shares allotted), based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of each grant or, if that date is not a business day, the business day immediately before, in excess of HK$5,000,000.00,

such further grant of options must be approved by the Shareholders. The Company must send a circular to the Shareholders containing the information required under Rule 17.04 of the Listing Rules. All connected persons of the Company must abstain from voting at their respective general meetings, except that any connected person may vote against the relevant resolution at such general meeting(s) provided that his or her intention to do so has been stated in the circular to be sent to the relevant shareholders. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

(6) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period within which the option may be exercised, to be notified by the Directors to each Eligible Person who accepts an offer in accordance with the terms of the Share Option Scheme, provided that it shall commence on a date not be more than ten years from the date of grant.

(7) Acceptance of offer

The Eligible Person must accept any such offer notified to him or her within ten (10) business days from the offer date, failing which it shall be deemed to have been rejected. Upon acceptance of the offer, the grantee shall pay HK$1.00 to the Company as consideration for the grant.

(8) Basis of determining the subscription price

The subscription price for the shares under the Share Option Scheme shall be a price determined by the Board at its absolute discretion and notified to an Eligible Person but shall not be less than the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the offer date; and

(iii) the nominal value of a Share.

(9) The remaining life of the Share Option Scheme

The Share Option Scheme became effective on 25 May 2011 and will remain in force for a period of 10 years from that date.

The following table discloses the movement of the share options under the Share Option Scheme during the year:

	Number of share options						
Category of participant	Outstanding as at 01.01.2012	Granted during the year	Exercised during the year	Outstanding as at 31.12.2012	Date of grant	Exercisable period	Exercise price HK$
Consultant	500,000	–	–	500,000	26.07.2011	26.07.2011– 25.07.2013	0.355

During the year, no share option had been granted, exercised, lapsed or was cancelled under the Scheme.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2012, none of the Directors or the chief executive of the Company, or any of their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 31 December 2012, according to the register kept by the Company pursuant to Section 336 of the SFO, and so far as was known to the Directors or chief executive of the Company, the following persons had, or was deemed or taken to have, an interest or short position in the shares or underlying shares of the Company:

Name of shareholders	Capacity	Number of shares held	Approximate percentage interest in the issued share capital of the Company
Qian Yong Wei	Beneficial owner	25,000,000	0.18%
("Mr. Qian") *(Note 1)*	Held by controlled corporation	4,914,438,552	35.10%
		4,939,438,552	35.28%
Xu Zhe Cheng ("Ms. Xu") *(Note 2)*	Held by spouse	4,939,438,552	35.28%
China Wan Tai Group Limited ("China Wan Tai") *(Note 3)*	Held by controlled corporation	4,914,438,552	35.10%
Universal Union Limited ("Universal Union")	Beneficial owner	4,914,438,552	35.10%
Soong Kung Yuan ("Mr. Soong") *(Note 4)*	Beneficial owner	1,000,000,000	7.14%

Notes:

1. Mr. Qian personally held 25,000,000 shares in the Company, and held 95% interest in China Wan Tai. China Wan Tai held 100% interest in Universal Union. Universal Union held 4,914,438,552 shares in the Company.

2. Ms. Xu is the spouse of Mr. Qian. The interest of Mr. Qian was deemed to be Ms. Xu's interest.

3. These shares are held by Universal Union, a wholly owned subsidiary of China Wan Tai which is in turn beneficially owned by Mr. Qian and Ms. Xu as to 95% and 5% respectively.

4. Pursuant to a placing agreement entered into between the Company as issuer and Mr. Soong as placee on 31 May 2012, the Company has issued and allotted 300,000,000 new Shares to Mr. Soong. Pursuant to the convertible notes option subscription agreement entered into between the Company as an issuer and Mr. Soong as potential subscriber also on 31 May 2012, Mr. Soong subscribed for the convertible notes in the amount of HK$252,000,000 (the "Convertible Notes") on 3 December 2012 and subsequently exercised in full of the conversion right attached to the Convertible Notes on 17 December 2012, and the Company has issued and allotted a total of 700,000,000 conversion shares to Mr. Soong accordingly.

5. All interests stated above represent long position.

Save as disclosed above, the Directors and chief executive of the Company were not aware of any persons who, as at 31 December 2012, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or, who was, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them, or was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in the Company or any other body corporate.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

The Directors' remuneration for the year is set out in Note 10 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance in relation to the Group's business to which the Company, any of its holding companies or fellow subsidiaries was a party, in which a Director had a material interest, subsisted at the end of the year under review or at any time during the year under review.

RELATED PARTY TRANSACTIONS

Details of the related party transactions during the year are set out in Note 39 to the consolidated financial statements.

COMPETING INTERESTS

The Directors believe that none of the Directors and their respective associates had an interest, directly or indirectly, in a business which competes or may compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the law of Bermuda.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 108 of this annual report.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, namely Mr. Mu Xiangming, Dr. Cheng Chak Ho and Mr. Lo Wa Kei Roy. The purpose of the establishment of the audit committee is for reviewing and supervising the financial reporting process and internal control of the Group. The audit committee has reviewed the Group's financial statements for the year ended 31 December 2012.

AUDITORS

Elite Partners CPA Limited ("Elite") was appointed as auditors of the Company in 2008, and then retired and was re-appointed at the Company's annual general meeting in 2009 and 2010.

On 22 March 2011, Elite resigned as auditors of the Company and Pan-China (H.K.) CPA Limited ("Pan-China") was appointed as auditors of the Company due to merge of business between Elite and Pan-China. Pan-China retired and was re-appointed at the Company's annual general meeting held on 25 May 2011.

On 28 February 2012, Pan-China resigned as auditors of the Company and Elite was appointed as auditors of the Company. The reason for the above change of auditors is due to the corporate restructuring between Pan-China and Elite. Elite retired and was re-appointed at the Company's annual general meeting held on 30 May 2012.

Elite will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting.

A resolution for the re-appointment of Elite as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Gao Yuan Xing
Chairman of the Board and Chief Executive Officer

Hong Kong, 25 March 2013

REPORT ON CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance is crucial to improve the efficiency and performance of the Group and to safeguard the interests of the shareholders.

During the year ended 31 December 2012, the Company had applied the principles of the Code of Corporate Governance Practices (the "Former Code") for the period form 1 January 2012 to 31 March 2012 and the principles of the Corporate Governance Code (the "Revised Code") which came into effect on 1 April 2012, all those set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company had complied with all the applicable code provisions of the Former Code and Revised Code, except the following code provision:

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year, Mr. Gao Yuan Xing performed the roles of the Chairman and the Chief Executive Officer of the Company. In allowing the two positions to be occupied by the same person, the Company has considered that both positions require in-depth knowledge and considerable experience of the Group's business. Candidates with the requisite knowledge, experience and leadership are difficult to identify. If either of the positions is occupied by an unqualified person, the Group's performance could be gravely compromised. The Board also believes that the vesting of two roles in the same person would provide the Group with stable and consistent leadership and allows for more effective and efficient planning and implementation of long term business strategies. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

Under the code provision A.5.1 of the Code, company should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors. However, the Board considers that the setting up of such a nomination committee may not be necessary at the current scale of the Board and the Company. The Board is responsible for considering and approving the appointment of its members and making recommendations to shareholders on directors standing for re-election, providing sufficient biographical details of directors to enable shareholders to make an informed decision on the re-election, and where necessary, nominate and appoint directors to fill casual vacancies. The chairman may in conjunction with the other directors from time to time review the composition of the Board with particular regard to ensuring that there is an appropriate number of directors on the Board independent of management.

Under the code provision A.6.7 of the Code, independent non-executive directors and other non-executive directors should, inter alia, attend general meetings. Due to personal and other important engagement at the relevant time, these Directors were absent from the general meetings of the Company.

The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than the Revised Code.

The Company will periodically review and improve its corporate governance practices with reference to the latest development of corporate governance.

REPORT ON CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Directors during the year ended 31 December 2012 and up to the date of this report are as follows:

Executive Directors
Gao Yuan Xing *(Chairman and Chief Executive Officer)*
Qian Yi Dong *(Deputy Chairman)*
Zhang Jia Kun
Zhao Qing (resigned on 6 January 2013)

Non-Executive Director
Fan Wei Guo (resigned on 1 March 2013)

Independent Non-executive Directors
Mu Xiangming
Cheng Chak Ho
Lo Wa Kei Roy

The following table shows the attendance of each individual member of the Board and the respective Board Committees at the Board and the respective Board Committees meetings and general meeting held during the year ended 31 December 2012:

Name of Directors	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Corporate Governance Committee meeting	Financial Reporting Committee meeting	General meeting
Gao Yuan Xing	4/4	n/a	n/a	n/a	n/a	2/2
Qian Yi Dong	4/4	n/a	1/1	2/2	2/2	2/2
Zhang Jia Kun	2/4	n/a	n/a	0/0	2/2	0/2
Mu Xiangming	2/4	2/2	n/a	n/a	n/a	0/2
Cheng Chak Ho	2/4	2/2	1/1	2/2	n/a	0/2
Lo Wa Kei Roy	2/4	2/2	1/1	n/a	2/2	0/2
Zhao Qing *(note 1)*	2/4	n/a	n/a	2/2	n/a	0/2
Fan Wei Guo *(note 2)*	1/4	n/a	n/a	n/a	n/a	0/2

Note:

1. Mr. Zhao Qing resigned as Executive Director on 6 January 2013

2. Mr. Fan Wei Guo resigned as Non-executive Director on 1 March 2013.

The principal roles of the Board are to oversee the strategic development, to determine the objectives, strategies and policies of the Group, to monitor and control the financial performance and to ensure effective internal controls and risk management. Implementation of strategies and day-to-day operations are delegated to the management.

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly. Schedules for annual meeting and draft agenda of each meeting is sent to all Directors in advance. Notice of at least 14 days is given for a regular Board meeting. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are dispatched to all Directors at least three days before each regular Board meeting to ensure that the Directors have sufficient time to review the related documents and be adequately prepared for the meeting.

Minutes of all Board meetings and committee meetings, which record in sufficient detail the matters considered and decisions reached, are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director. The Company's Articles contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Any Director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request being made to the Board.

During the financial year of 2012, the Board had at all times at least three independent non-executive directors and at least one of independent non-executive directors have appropriate professional qualifications or accounting or related financial management expertise. The Company has appointed independent non-executive directors representing at least one-third of the board.

The Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

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

Director's Continuous Professional Development

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills.

During the year, all Executive Directors of the Company namely, Messrs Gao Yuan Xing, Qian Yi Dong and Zhang Jia Kun received briefings and updates on the Group's business, operations, risk management and corporate governance matters. Materials on new or changes to rules and regulations applicable to the Group were provided to them. According to the training records maintained by the Company, Independent Non-executive Directors namely Messrs. Mu Xiangming, Cheng Chak Ho and Lo Wa Kei Roy also attended regulatory update sessions and seminars on relevant topics.

NON-EXECUTIVE DIRECTORS

All the non-executive Directors of the Company were appointed for an initial term of one year and every Director (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the bye-laws of the Company.

BOARD COMMITTEES

The Board set up various board committees responsible for various aspect of business of the Company.

Remuneration Committees

The Remuneration Committee of the Company was established in May 2006. The members of the Committee during the financial year of 2012 are:

Lo Wa Kei Roy, Independent Non-executive Director, *(Chairman of the Committee)*
Cheng Chak Ho, Independent Non-executive Director
Qian Yi Dong, Executive Director

The responsibilities of the Remuneration Committee include setting remuneration policy of the Group and fixing remuneration packages of the Directors in accordance with the Listing Rules and the Bye-laws. Details of the remuneration paid to the respective Directors are set out in note 10 to the financial statements. No Directors can determine their own remuneration packages. The Remuneration Committee is provided with sufficient resources to discharge its duties. The Remuneration Committee has adopted terms of reference which are aligned with the Former Code and the Revised Code. The chairman of the Remuneration Committee will report their findings and recommendations to the Board for consideration and approval. The Remuneration Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference.

During the year ended 31 December 2012, the work performed by the Remuneration Committee included the followings:

a. discussing the policy for the remuneration of the Directors

b. reviewing remuneration packages of the Directors

c. making recommendations to the Board on remuneration of the Non-Executive Directors

Audit Committee

The Audit Committee comprises all Independent Non-executive Directors of the Company, they are as follows:

Mu Xiangming, Independent Non-executive Director, *(Chairman of the Committee)*
Cheng Chak Ho, Independent Non-executive Director
Lo Wa Kei Roy, Independent Non-executive Director

The Audit Committee will meet no less than twice a year to review all business affairs managed by the Executive directors and to review the interim and final financial statements of the Group before their submission to the Board for approval and to review the effectiveness of the internal control and risk management system of the Group. The Audit Committee has adopted terms of reference which are aligned with the Former Code and the Revised Code. A copy of the terms of reference of the Audit Committee has been posted on the Company's website.

During the year ended 31 December 2012, the Audit Committee met on 2 occasions with the presence of external auditors and discharged its responsibilities in its review of the interim and annual results. The work performed by the Audit Committee for the year ended 31 December 2012 included reviews of the following:

a. the directors' report and the consolidated financial statements for the year ended 31 December 2011 of the Group, with a recommendation to the Board for approval;

b. the consolidated financial statements for the 6 months ended 30 June 2012 of the Group, with a recommendation to the Board for approval;

c. the audit fees for the year ended 31 December 2012 proposed by the external auditors, with a recommendation to the Board for approval;

d. the new accounting policies and practices adopted by the Group;

e. the compliance status of the Group with the applicable regulatory and other legal requirements;

f. the Group's investment policy and the adequacy of provision made for diminution in value for the Group's assets and investments; and

g. the internal control and risk management system of the Group.

Corporate Governance Committee

In order to further strengthen the Company's corporate governance, the Company established the Corporate Governance Committees on 12 January 2008:

The members of the Committee during the financial year of 2012 and up to the date of this report are as follows:

Mr. Qian Yi Dong, Executive Director *(Chairman of the committee)*
Dr. Cheng Chak Ho, Independent Non-executive Director
Mr. Zhang Jia Kun, Executive Director (appointed on 6 January 2013)
Mr. Zhao Qing, Executive Director (resigned on 6 January 2013)

The major responsibilities of the Corporate Governance Committee are to oversee the Company's corporate governance matters and to ensure that the Company has complied with the Former Code and the Revised Code. The Corporate Governance Committee had reviewed the corporate governance report of the Company and confirmed that the Company had complied with the Former Code and the Revised Code of the Listing Rules throughout the year except some deviations from the Codes mentioned on the page 1 of this report.

Financial Reporting Committee

The Board, supported by the accounts department, is responsible for the preparation of the financial statements of the Company and the Group. The Company has also set up a Financial Reporting Committee which major responsibility is to oversee the preparation of financial statements of each financial period, which give a true and fair view of the state of affairs of the Group and of the Group's results and cash flow for that year. The Financial Reporting Committee is also responsible to ensure the compliance by the Group of disclosure requirements under the Listing Rules in a timely manner.

The members of the Financial Reporting Committee throughout the financial year of 2012 are as follows:

Mr. Qian Yi Dong, Executive Director *(Chairman of the committee)*
Mr. Lo Wa Kei Roy, Independent Non-executive Director
Mr. Zhang Jia Kun, Executive Director

During the year ended 31 December 2012, the Financial Reporting Committee had reviewed the audited financial statements of the Group for the year ended 31 December 2011 and confirmed that the preparation of the audited financial statements of the Group for the year ended 31 December 2011 had complied with the disclosure requirements under the Listing Rules in a timely manner.

Nomination function

The Board is collectively responsible for performing the nomination duties including:

a. reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis

b. reviewing the candidates' qualification and competence

c. assessing the independence of the Independent Non-Executive Directors

d. making decision on appointment of Directors

DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2012, and they have all confirmed that they had fully complied with the required standard set out in the Model Code.

AUDITOR'S REMUNERATION

An amount of approximately HK$900,000 (2011: HK$900,000) was charged to the Group's consolidated financial statements for the year ended 31 December 2012 for the auditing services provided by Elite Partners CPA Limited. There was no non-audit service assignment provided by Elite Partners CPA Limited during the year (2011: Nil).

SHAREHOLDER'S RIGHTS

Convening a Special General Meeting by Shareholders

Pursuant to the Bye-law 58 of the Company, a special general meeting may be convened by the Board upon requisition by any shareholder holding not less than one-tenth of the issued share capital of the Company and the securities being held carrying the right of voting at any general meetings of the Company. The shareholder shall make a written requisition to the Board or the Company Secretary of the Company at the head office or principal place of business in Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. The Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business. If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act of Bermuda.

The procedures for sending enquiries to the Board

Shareholders may send their enquiries and concerns in writing to the Board by addressing them to the Company Secretary at the Principal Place of Business and the Company Secretary shall then forward the same to the appropriate executives of the Company or members in the Board for further handling.

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the Company Secretary of the Company at the head office or principal place of business in Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

INVESTOR RELATIONS

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. The Directors meet and communicate with shareholders at the AGM of the Company. The Chairman proposes separate resolutions for each issue to be considered and put each proposed resolution to the vote by way of a poll. Voting results are posted on the Company's website on the day of AGM.

Our corporate website which contains corporate information, corporate governance practice, interim and annual reports, announcements and circulars issued by the Company enables the Company's shareholders to have timely and updated information of the Company.

On behalf of the Board
Gao Yuan Xing
Chairman of the Board and Chief Executive Officer

Hong Kong, 25 March 2013

INDEPENDENT AUDITOR'S REPORT

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

To the members of
North Mining Shares Company Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of North Mining Shares Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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, 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 consolidated financial statements are free from material misstatement.

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

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

BASIS FOR QUALIFIED OPINION

Prior year's audit scope limitation affecting opening balances and comparative figures

1. The auditor's report on the consolidated financial statements of the Group for the years ended 31 December 2009, 2010 and 2011 contained a qualification on the possible effect of the limitations on the scope of the audit in relation to a property development project held by a subsidiary of the Company which had been surrendered to Xian Government without the Company's knowledge or consent. Details of which has been set out in the auditor's report dated 29 March 2010, 28 March 2011 and 30 March 2012 and was included in the Group's annual report for the years ended 31 December 2009, 2010 and 2011.

2. The auditor's report on the consolidated financial statements of the Group for the years ended 31 December 2010 and 2011 contained a qualification on the provision of environmental and resources tax arising from the renewal of mining right held by a subsidiary of the Company. Details of which has been set out in the auditor's report dated 28 March 2011 and 30 March 2012 and was included in the Group's annual report for the years ended 31 December 2010 and 2011.

As the auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2011 formed the basis for the corresponding figures presented in the current year's consolidated statements, any adjustments found to be necessary in respect of (i) the carrying amount of the abovementioned property development project; and (ii) the provision of environmental and resources tax would have a significant effect on the opening balances and consequential effect on the consolidated financial position of the Group as at 31 December 2012 and the results and cash flows for the year ended 31 December 2012 and the related disclosures thereof in the consolidated financial statements of the Group for the year ended 31 December 2012.

Scope limitation — provision for environmental and resources tax

As stated in note 31 to the consolidated financial statements, an amount of HK$98,425,000 (approximately RMB80,000,000) related to the provision of environmental and resources tax (the "Provision") arising from the renewal of mining right held by a subsidiary of the Company has been recognised as at 31 December 2012. We were unable to obtain sufficient appropriate evidence regarding the validity and completeness of the Provision as at 31 December 2012. Any adjustments found to be necessary in respect thereof would have a significant and consequential effect on the consolidated financial position of the Group as at 31 December 2012, the results and cash flows for the year ended 31 December 2012 and the related disclosures thereof in the consolidated financial statements of the Group for the year ended 31 December 2012.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

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

INDEPENDENT AUDITOR'S REPORT

REPORT ON MATTERS UNDER SECTIONS 141(4) AND 141(6) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the matters described in the basis for qualified opinion's paragraph:

— we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

— we were unable to determine whether proper books of account had been kept.

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong, 25 March 2013

Ng Man Chung, Siman
Practising Certificate Number P03122

Suites 921–921A, 9/F., Star House,
3 Salisbury Road, Tsimshatsui,
Hong Kong

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Revenue	5(a)	369,702	391,035
Cost of sales		(340,991)	(269,252)
Gross profit		28,711	121,783
Other income	5(b)	45,949	4,975
Other gains and losses	6	(1,035,586)	(905,158)
Administrative expenses		(85,907)	(81,059)
Loss from operations		(1,046,833)	(859,459)
Finance costs	8	(12,071)	(11,722)
Share of result of associates		(134)	–
Loss before income tax	9	(1,059,038)	(871,181)
Income tax expense	12	90,492	151,407
Loss for the year		(968,546)	(719,774)
Attributable to:			
Owners of the Company		(852,471)	(487,522)
Non-controlling interests		(116,075)	(232,252)
		(968,546)	(719,774)
Dividends	14	–	–
Loss per share			
— Basic, HK cents, as restated	15	(6.47)	(3.80)
— Diluted, HK cents, as restated	15	(5.40)	(3.80)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000 (Restated)
Loss for the year	**(968,546)**	(719,774)
Other comprehensive income (Net of tax effect):		
Exchange differences arising from translation of foreign subsidiaries	**76,119**	46,232
Release of exchange reserves upon disposal of subsidiaries	**(5,376)**	(61,751)
Other comprehensive income/(expense) for the year	**70,743**	(15,519)
Total comprehensive expense for the year	**(897,803)**	(735,293)
Attributable to:		
Owners of the Company	**(817,343)**	(480,810)
Non-controlling interests	**(80,460)**	(254,483)
	(897,803)	(735,293)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	31 December 2012 HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (Restated)
ASSETS				
Non-Current Assets				
Property, plant and equipment	16	314,001	283,678	239,516
Investment properties	17	–	–	153,501
Interest in associates	18	637,799	–	–
Prepaid lease payments	20	81,675	1,433	89,423
Exploration and evaluation assets	21	–	–	3,340,576
Mining rights	22	2,010,545	2,756,137	3,318,288
Other financial assets	23	1,229,931	54,591	–
		4,273,951	3,095,839	7,141,304
Current Assets				
Inventories	24	104,813	182,142	193,879
Trade receivables	25	39,870	–	–
Prepayments, deposits and other receivables	26	115,609	168,539	166,909
Tax recoverable		23,411	11,463	11,349
Cash and cash equivalents		368,501	24,305	138,381
		652,204	386,449	510,518
Non-current assets classified as held for sales	36	–	2,646,811	–
		652,204	3,033,260	510,518
Total Assets		4,926,155	6,129,099	7,651,822
CAPITAL AND RESERVES				
Share capital	27	224,041	208,041	200,961
Reserves	28	2,558,466	3,026,194	3,397,721
Equity attributable to owners of the Company		2,782,507	3,234,235	3,598,682
Non-controlling interests		491,033	1,805,638	2,037,890
Total Equity		3,273,540	5,039,873	5,636,572

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	31 December 2012 HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (Restated)
LIABILITIES				
Non-Current Liabilities				
Deferred tax liabilities	29	507,050	693,422	1,647,950
Provision for environmental and resources tax	31	98,425	97,847	118,078
		605,475	791,269	1,766,028
Current Liabilities				
Trade payables	30	115,602	73,864	22,610
Other payables and accruals	32	112,823	80,210	121,124
Bank loans and other borrowings	33	94,611	59,870	105,254
Other financial liabilities	34	647,009	23,000	–
Amounts due to related parties	35	67,577	60,755	–
Tax payables		9,518	258	234
		1,047,140	297,957	249,222
Total Liabilities		1,652,615	1,089,226	2,015,250
Total Equity and Liabilities		4,926,155	6,129,099	7,651,822
Net Current (Liabilities)/Assets		(394,936)	2,735,303	261,296
Total Assets less Current Liabilities		3,879,015	5,831,142	7,402,600
Net Assets		3,273,540	5,039,873	5,636,572

Approved and authorised for issue by the board of directors on 25 March 2013

Gao Yuan Xing
Director

Qian Yi Dong
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS			
Non-Current Assets			
Property, plant and equipment	16	–	542
Interest in associates	18	47,322	–
Investments in subsidiaries	19	1,792,395	1,409,463
		1,839,717	1,410,005
Current Assets			
Prepayments, deposits and other receivables	26	897	47,841
Cash and cash equivalents		83,191	150
		84,088	47,991
Total Assets		1,923,805	1,457,996
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	224,041	208,041
Reserves	28	1,049,432	1,223,617
Total Equity		1,273,473	1,431,658
LIABILITIES			
Current Liabilities			
Other payables and accruals	32	3,323	3,338
Other financial liabilities	34	647,009	23,000
Total Liabilities		650,332	26,338
Total Equity and Liabilities		1,923,805	1,457,996
Net Current (Liabilities)/Assets		(566,244)	21,653
Total Assets less Current Liabilities		1,273,473	1,431,658
Net Assets		1,273,473	1,431,658

Approved and authorised for issue by the board of directors on 25 March 2013

Gao Yuan Xing
Director

Qian Yi Dong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Special reserve HK$'000	Fair value reserve HK$'000	Statutory reserve HK$'000	Exchange reserve HK$'000	(Accumulated losses)/ Retained earnings HK$'000	Sub-total HK$'000	Attributable to Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2011 (restated)	200,961	2,122,285	31,350	(894)	–	–	11,695	200,888	1,032,397	3,598,682	2,037,890	5,636,572
Loss and total comprehensive expense for the year	–	–	–	–	–	–	–	(15,519)	(487,522)	(503,041)	(232,252)	(735,293)
	200,961	2,122,285	31,350	(894)	–	–	11,695	185,369	544,875	3,095,641	1,805,638	4,901,279
Placing of shares	7,080	134,520	–	–	–	–	–	–	–	141,600	–	141,600
Release of statutory reserves upon disposal of subsidiaries	–	–	–	–	–	–	(3,006)	–	–	(3,006)	–	(3,006)
Transfer to statutory reserves	–	–	–	–	–	–	3,988	–	(3,988)	–	–	–
At 31 December 2011 and at 1 January 2012 (restated)	208,041	2,256,805	31,350	(894)	–	–	12,677	185,369	540,887	3,234,235	1,805,638	5,039,873
Loss and total comprehensive expense for the year	–	–	–	–	–	–	–	76,119	(852,471)	(776,352)	(116,075)	(892,427)
	208,041	2,256,805	31,350	(894)	–	–	12,677	261,488	(311,584)	2,457,883	1,689,563	4,147,446
Placing of shares	4,800	73,200	–	–	–	–	–	–	–	78,000	–	78,000
Conversion of convertible notes	11,200	240,800	–	–	–	–	–	–	–	252,000	–	252,000
Release of statutory reserves upon disposal of subsidiaries	–	–	–	–	–	–	–	(5,376)	–	(5,376)	(1,198,530)	(1,203,906)
At 31 December 2012	**224,041**	**2,570,805**	**31,350**	**(894)**	**–**	**–**	**12,677**	**256,112**	**(311,584)**	**2,782,507**	**491,033**	**3,273,540**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000 (Restated)
Cash flows from operating activities		
Loss from operations	(1,046,833)	(859,459)
Adjustments for:		
Imputed interest income arising from amortisation of promissory notes	(43,580)	–
Interest income	(618)	(284)
Compensation income	–	(4,274)
Depreciation	33,600	32,529
Amortisation of prepaid lease payments	5,889	2,102
Amortisation of mining right	84,066	139,522
Gain on disposal of associates	–	(9,810)
(Gain)/Loss on disposal of subsidiary	(20,733)	22,831
Loss on disposal of property, plant and equipment	18,273	–
(Reversal)/Provision of impairment loss on trade receivables	(6,972)	6,999
Loss arising from change in fair value of financial liabilities designated as at FVTPL	624,009	23,000
Loss arising from change in fair value of promissory notes	49,745	47,904
Provision for environmental and resources tax	–	(20,231)
Impairment loss on mining rights	299,582	509,801
Impairment loss on interest in associates	–	158
Impairment loss on re-measurement of non-current assets held for sales	–	157,134
Impairment loss on prepayments, deposits and other receivables	–	5,517
Operating profit before working capital changes	(3,572)	53,439
Decrease in inventories	77,329	11,737
Increase in trade receivables, prepayments, deposits and other receivables	(66,063)	(213,962)
Increase in trade payables, other payables and accruals	74,351	74,981
Increase in amounts due to related parties	6,822	60,755
Increase in amount due from an associate	(58,276)	–
Cash generated from/(used in) operations	30,591	(13,050)
Interest income received	618	284
Corporate income tax paid	(8,108)	(14,927)
Net cash generated from/(used in) operating activities	23,101	(27,693)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000 (Restated)
Cash flows from investing activities			
Purchase of items of property, plant and equipment and addition to properties under development		**(80,242)**	(67,658)
Proceeds from disposal of property, plant and equipment		–	6
Purchase of item of investment properties		–	(35,452)
Cash effect of disposal of subsidiary	41	**216,000**	61,132
Cash received on disposal of an associate		–	9,652
Subscription of promissory note receivables		**(198,899)**	(102,495)
Net cash used in investing activities		**(63,141)**	(134,815)
Cash flows from financing activities			
Interest expense paid		**(12,071)**	(11,722)
Proceeds from bank loans		**82,540**	59,870
Repayment of loans		**(47,799)**	(105,254)
Proceeds from issuance of shares		**330,000**	141,600
Net cash generated from financing activities		**352,670**	84,494
Net increase/(decrease) in cash and cash equivalents		**312,630**	(78,014)
Cash and cash equivalents at 1 January		**24,305**	138,381
Effect of foreign exchange rate changes, net		**31,566**	(36,062)
Cash and cash equivalents at 31 December		**368,501**	24,305
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**368,501**	24,305

1. GENERAL INFORMATION

North Mining Shares Company Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liabilities. The address of the registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business is located at rooms 3609-10, 36/F., China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The principal activities of the Company are investment holding and property investment. The principal activities of the Company and its subsidiaries (the "Group") are mining, property leasing and property management.

The consolidated financial statements are presented in Hong Kong dollars, which is the same functional currency of the Company.

In the opinion of the directors, the ultimate holding company of the Company is China Wan Tai Group Limited, which was incorporated in Hong Kong.

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

2.1 Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

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

2.2 Standards and Interpretations adopted in the current period

In the current year, the Group has applied for the first time the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1January 2012:

HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets
HKAS 2 (Amendments)	Income Taxes — Deferred Tax: Recovery of Underlying Assets

The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

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

2.3 Possible impact of amendments, new standards and interpretation issued but not yet effective for the year ended 31 December 2012

The Group has not early applied the following new and revised standards, amendments or interpretations relevant to the Group's operations that have been issued but are not yet effective.

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

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

The directors of the Company are in the process of making an assessment of what the impact of these new and revised HKFRSs upon initial application. So far the directors of the Company anticipate that the application of other new and revised standards, amendments and interpretations in issue but not yet effective will have no material impact on the results and the financial position of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The consolidated financial statements of have been prepared in accordance with HKFRSs under the historical cost convention, as modified by the other financial assets and other financial liabilities, which are carried at fair value, as explained in the accounting policies set out below. In addition, the consolidated financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the disclosure requirement of the Hong Kong Companies Ordinance.

The preparation of consolidated financial statements in accordance with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 to the consolidated financial statements.

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

3.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

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

Inter-company transactions, balances, income and expenses between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Basis of consolidation (Continued)

(a) Subsidiaries (Continued)

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Group, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

Change in the Group's ownership interests in existing subsidiaries

Changes the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Company's statement of financial position, an investment in a subsidiary is carried at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Basis of consolidation (Continued)

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's shares of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

Where a group entity transacts with an associate of the Group, profits or losses are eliminated to the extent of the Group's interest in the associates. Accounting policies of associates have been changes where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Business combination

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

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

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

- liabilities or equity instruments related to share-based payment transactions of the acquire or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

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

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

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

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Business combination (Continued)

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

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

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

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

3.4 Goodwill

Goodwill arising on acquisition is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

On disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the profit or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets

The Group classifies its financial assets into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial investment and loans and receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

3.5.1 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 (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised in profit or loss on an effective interest basis.

3.5.2 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading, financial assets designated upon initial recognition as at fair value through profit or loss and all derivatives other than hedging instruments.

Financial assets are classified as held for trading if:

— it has been acquired principally for the purpose of selling it in the near term;

— on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

— it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

3.5.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

3.5.4 Available-for-sale financial investment

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-for-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

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

Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

3.5.5 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

3.5.6 Derecognition

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

3.5.7 Impairment of financial assets

At the end of each reporting period, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

For available-for-sale financial investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When available-for-sale financial investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period. Impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Mining structure and building plant and machinery	20 years
Leasehold improvement	3 to 5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	3 to 5 years

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the profit or loss.

3.7 Leasehold interests in land

Leasehold interests in land are classified as operating leases and presented as “Prepaid lease payments” in the consolidated statement of financial position when all the risks and rewards incidental to ownership are not substantially transferred to the Group. Leasehold interests in land are amortised in the profit or loss on a straight-line basis over the period of the lease or when there is impairment, the impairment is recognised in the profit or loss.

3.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Mining rights

Mining rights acquired separately are initially measured at cost. Mining rights are reclassified from exploration and evaluation assets at the carrying amount when the technical feasibility and commercial viability of extracting mineral resources are demonstrable. Mining rights with finite useful lives are carried at costs less accumulated amortisation and any identified impairment loss. Amortisation for mining rights with finite useful lives is provided using the unit of production method based on the actual production volume over the estimated total proved and probable reserves of the mineral mines.

3.10 Current assets and current liabilities

Current assets are expected to be realised within twelve months of the end of reporting period or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the end of reporting period or in the normal course of the Group's operating cycle.

3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

3.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

3.13 Financial liabilities and equity instruments issued by the Group

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

3.13.1 Equity instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial liabilities and equity instruments issued by the Group (Continued)

3.13.2 Compound instruments

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

3.13.3 Effective interest method

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

Interest expense is recognised in profit or loss on an effective interest basis.

3.13.4 Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

3.13.5 Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

— it has been acquired principally for the purpose of repurchasing it in the near term;

— on initial recognition it is part of a portfolio of identified financial instruments that the Group manages tighter and has a recent actual pattern of short-term profit-taking; or

— it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at fair value through profit or loss are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial liabilities and equity instruments issued by the Group (Continued)

3.13.6 Other financial liabilities

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

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

3.13.7 Derecognition

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 and payable is recognised in profit or loss.

3.14 Impairment of assets

(i) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— Property, plant and equipment;

— Interest in associates

— Prepaid lease payments

— Mining rights

— Investment in subsidiaries

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Impairment of assets (Continued)

(i) Impairment of other assets (Continued)

— *Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its fair value less costs to sell and its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(ii) Interim financial reporting and impairment

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Revenue recognition

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

(i) Sales of molybdenum concentrate, sulfuric acid and mineral resources
Sales of molydnum concentrate, sulfuric acid and mineral resources is measured at the fair value of the consideration received or receivable and represents amounts of goods sold in the normal course of business, net of sales related tax. Sales of goods are recognised when goods are delivered and title has passed.

(ii) Rental income from operating lease
Rental income receivable under operating leases is recognised in equal instalments over the accounting periods covered by the lease term. Lease incentives granted are recognised as an integral part of the aggregate lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income and property management income
Interest income from bank deposits and loans receivable are accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable. Property management income is recognised when the services are rendered.

3.16 Foreign currencies

Transactions in currencies other than the functional currency of the respective group entities (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions.

At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Foreign exchange gains and losses arising on the settlement of monetary items, and on the retranslation of monetary items, are included in net profit or loss for the period, except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

On consolidation, the assets and liabilities of the Group's foreign operations are translated to Hong Kong dollars at exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Lease

Leases are classes are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to the profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3.18 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.19 Employee benefits

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

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's overseas entities are recognised as an expense in the income statement as incurred.

(iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Employee benefits (Continued)

(iv) The Group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting condition) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

3.20 Taxation

Income tax expense 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 is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited in the 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.

3.21 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the end of reporting period of the expenditures expected to be required to settle the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3.23 Related parties

For the purposes of these financial statements, related parties include a person and entity as defined below:

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

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

  (b) has significant influence over the Group;

  (c) is a member of the key management personnel of the Company or of a parent of the Company;

(ii) An entity is related to the Group (reporting entity) if any of the following conditions applies:

  (a) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

  (b) either entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member);

  (c) both entities are joint ventures of a third entity;

  (d) either entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (e) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan;

  (f) the entity is controlled or jointly controlled by a person identified in (i);

  (g) a person identified in (i)(a) has significant voting power in the entity.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4.1 Useful life of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

4.2 Amortisation and Impairment of mining rights

Mining rights are amortised using the unit of production method based on the actual production volume over the estimated total proved and probable reserve of the molybdenum mines.

The process of estimating quantities of reserves is inherently uncertain and complex. It requires significant judgement and decision based on available geological, geophysical, engineering and economic data. These estimate may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting mineral prices and costs change. Reserve estimates are based on current production forecasts, prices and economic conditions. The directors exercise their jugdement in estimating the total proved and probable reserves of the molybdenum mines. If the quantities of reserve are different from current estimates, it will result in significant changes to amortisation of mining rights and affect the recoverable amount of exploration and evaluation , which a material loss may arise.

The carrying values of mining rights are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amounts of mining rights, or, where appropriate, the cash-generating units to which they belong, are calculated as the higher of its fair values less costs to sell and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.3 Impairment of loans and receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the profit or loss. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

4.4 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 selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the end of the reporting period.

4.5 Fair value of other financial assets and liabilities

The fair values of loans and receivables and financial liabilities are accounted for or disclosed in the consolidated financial statements. The calculation of fair values requires the Group to estimate the future cash flows expected to arise from those assets and liabilities and suitable discount rates. Variations in the estimated future cash flows and the discount rates used may result in adjustments to the carrying amounts of these assets and liabilities and the amounts disclosed in the consolidated financial statements.

4.6 Income taxes and deferred taxation

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for 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.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

5. TURNOVER AND OTHER INCOME

An analysis of the Group's turnover and other income is as follows:

		Group	
		2012	2011
		HK$'000	HK$'000
(a)	**Revenue**		
	Sales of molybdenum concentrate	345,561	343,644
	Sales of sulfuric acid	–	29,212
	Trading of minerals resources	17,590	12,971
	Property management fee income	6,551	5,208
		369,702	391,035
(b)	**Other income:**		
	Compensation income	–	4,274
	Bank interest income	618	284
	Imputed interest income arising from amortisation of promissory notes	43,580	–
	Sundry income	1,751	417
		45,949	4,975

6. OTHER GAINS AND LOSSES

	Group 2012 HK$'000	Group 2011 HK$'000 (Restated)
Amortisation of prepaid lease payments	(5,889)	(2,102)
Amortisation of mining rights	(84,066)	(139,522)
Loss arising from change in fair value of financial liabilities designated as at FVTPL	(624,009)	(23,000)
Loss arising from change in fair value of promissory notes	(49,745)	(47,904)
Gain/(Loss) on disposal of subsidiaries	20,733	(22,831)
Gain on disposal of associates	–	9,810
Reversal/(Provision) of impairment loss on trade receivables	6,972	(6,999)
Impairment loss on mining rights	(299,582)	(509,801)
Impairment loss on re-measurement of non-current asset held for sales	–	(157,134)
Impairment loss on associates	–	(158)
Impairment loss on prepayments, deposits and other receivables	–	(5,517)
	(1,035,586)	(905,158)

7. SEGMENT INFORMATION

Operating segments has been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and to assessing their performance.

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

(a) Mining operation: — Exploration of mineral mines
— Exploitation of molybdenum mines
— Trading of mineral resources

(b) Property leasing operation: The leasing of commercial premises

(c) Property management operation: Provision of management service to commercial premises

The management monitors the operating results of its business units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or loss and is measured consistently with operating profit or loss in the consolidated financial statements. Information regarding the above segment is reported below.

7. SEGMENT INFORMATION (Continued)

7.1 Operating segment information

Segment revenue and results
For the year ended 31 December 2012

	Property leasing[2] HK$'000	Property management HK$'000	Mining operation: Mining exploitation[3] HK$'000	Mining operation: Mining exploration[4] HK$'000	Mining operation: Trading of mineral resources HK$'000	Total HK$'000
Revenue						
Segment turnover	–	6,551	345,561	–	17,590	369,702
Results[1]						
Segment results	–	238	(321,791)	(4,921)	(1,814)	(328,288)
Unallocated corporate income						52,919
Unallocated corporate expenses						(687,757)
Loss before income tax						(963,126)
Income tax						(5,420)
Loss for the year						(968,546)

7. SEGMENT INFORMATION (Continued)

7.1 Operating segment information (Continued)

For the year ended 31 December 2011

	Property leasing[2] HK$'000	Property management HK$'000	Mining operation: Mining exploitation[3] HK$'000	Mining operation: Mining exploration[4] HK$'000 (Restated)	Mining operation: Trading of mineral resources HK$'000	Total HK$'000
Revenue						
Segment turnover	–	5,208	372,856	–	12,971	391,035
Results[1]						
Segment results	(3,765)	31	(381,826)	(211,884)	(1,668)	(599,112)
Unallocated corporate income						14,083
Unallocated corporate expenses						(119,908)
Loss before income tax						(704,937)
Income tax						(14,837)
Loss for the year						(719,774)

1. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment result represents the profit earned by each segment without allocation of corporate income and expenses, central administrative expenses, directors' salaries and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

2. For the year ended 31 December 2012, there was no segment result for property leasing operation. For the year ended 31 December 2011, segment results for property leasing operation included the administrative expenses which are directly related to the reportable segment.

3. For the year ended 31 December 2012, segment results for mining exploitation included an impairment loss on mining rights of approximately HK$299,582,000 (2011: HK$436,801,000), amortisation of mining rights of approximately HK$84,066,000 (2011: HK$139,522,000) and reversal of deferred tax liabilities of approximately HK$95,912,000 (2011: HK$166,244,000) and operating expenses which are directly related to the reportable segment.

4. For the year ended 31 December 2012, segment result for mining exploration represented the administrative expenses incurred to the reportable segment. For the year ended 31 December 2011, segment results for mining exploration included the impairment of mining rights of approximately HK$73,000,000, re-measurement of non-current assets classified as held for sales of approximately HK$375,695,000 and reversal of deferred tax liabilities of approximately HK$18,250,000.

7. SEGMENT INFORMATION (Continued)

7.1 Operating segment information (Continued)

Segment assets and liabilities
As at 31 December 2012

			Mining operation				
	Property leasing	Property management	Mining exploitation	Mining exploration	Trading of mineral resources	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	**–**	**595**	**2,570,119**	**–**	**58,515**	**2,296,926**	**4,926,155**
Segment liabilities	**–**	**1,047**	**999,519**	**–**	**1,679**	**650,370**	**1,652,615**
As at 31 December 2011							
Segment assets	–	490	2,907,953	376,000	4,265	2,840,391	6,129,099
Segment liabilities	–	486	968,093	94,000	71	26,576	1,089,226

For the purposes of monitoring segment performances and allocating resources between segments:

— all assets are allocated to reportable segments other than interest in associates, other financial assets and assets used jointly reportable segments which are classified as "Others" in segment assets.

— all liabilities are allocated to reportable segments other than liabilities for which reportable segments are jointly liable and classified as "Others" in segment liabilities.

7. SEGMENT INFORMATION (Continued)

7.1 Operating segment information (Continued)

Other segment information

			Mining operation				
	Property leasing HK$'000	Property management HK$'000	Mining exploitation HK$'000	Mining exploration HK$'000	Trading of mineral resources HK$'000	Others HK$'000	Total HK$'000
As at 31 December 2012							
Depreciation and amortisation	–	1	116,942	–	–	723	117,666
Impairment loss recognised during the year	–	–	299,582	–	–	–	299,582
Capital expenditures	–	–	73,508	–	–	6,734	80,242
As at 31 December 2011 (Restated)							
Depreciation and amortisation	1,994	1	171,488	–	–	670	174,153
Impairment loss recognised during the year	–	–	449,317	230,134	–	158	679,609
Capital expenditures	–	3	67,281	–	–	374	67,658

7.2 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the group's current and non-current assets. The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the segment assets is based on the physical location of the asset, in the case of mining rights, the location of the operation to which they are allocated.

The Group's operations are located in the following geographical areas. The following table provides an analysis of the Group's revenue from external customers and assets by geographical location:

	Segment revenue from external customers		Segment assets	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Hong Kong	–	–	495,215	130,297
The PRC	369,702	391,035	4,430,940	5,944,211
	369,702	391,035	4,926,155	6,074,508

7. SEGMENT INFORMATION (Continued)

7.3 Information about major customers

Included in revenue of approximately HK$369,702,000 (2011: HK$391,035,000), a total of approximately HK$129,499,000 (2011: HK$111,543,000) is derived from sales to the Group's largest customer. The Group's five largest customers account for approximately HK$283,818,000 (2011: HK$260,644,000). No other single customer has contributed 10% or more to the Group's revenue for the years ended 31 December 2012 and 2011.

8. FINANCE COSTS

	Group	
	2012	2011
	HK$'000	HK$'000
Interest on bank loans and other borrowings wholly repayable within five years	**12,071**	11,722

9. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	Group	
	2012	2011
	HK$'000	HK$'000
Auditors' remuneration	**900**	900
Cost of inventories expensed	**335,223**	264,775
Depreciation of property, plant and equipment	**33,600**	32,529
Staff costs (including directors' remuneration *(Note 10)*		
— Wages and salaries	**16,017**	15,991
— Retirement benefits contributions	**1,438**	1,215
Operating lease payments in respect of offices premises	**1,713**	2,175

10. DIRECTORS' REMUNERATION

Remuneration of the directors disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Fees:		
Executive directors	–	100
Independent non-executive directors	300	300
	300	400
Other emoluments:		
Executive directors:		
Salaries, allowances and benefits in kind	1,167	1,105
Contributions to pension schemes	26	23
	1,193	1,128
	1,493	1,528

10. DIRECTORS' REMUNERATION (Continued)

For the year ended 31 December 2012 and 2011, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Director had waived any emolument during the year (2011: Nil).

	Fees		Salaries and other benefits		Retirement benefit scheme contributions		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors								
Gao Yuan Xing[1]	–	–	538	414	14	10	552	424
Qian Yi Dong[2]	–	–	269	207	12	10	281	217
Fan Wei Guo[3]	–	–	360	235	–	–	360	235
Chai Ming[4]	–	–	–	126	–	–	–	126
Zhang Jia Kun	–	–	–	–	–	–	–	–
Chiu Yeung[5]	–	–	–	123	–	3	–	126
Jin Jiu Xin[6]	–	100	–	–	–	–	–	100
Zhao Qing[7]	–	–	–	–	–	–	–	–
	–	100	1,167	1,105	26	23	1,193	1,228
Independent non-executive directors								
Mu Xiangming	100	100	–	–	–	–	100	100
Cheng Chak Ho	100	100	–	–	–	–	100	100
Lo Wa Kei Roy	100	100	–	–	–	–	100	100
	300	300	–	–	–	–	300	300

1 Gao Yuan Xing was appointed as Executive Director on 15 March 2011.
2 Qian Yi Dong was appointed as Executive Director on 15 March 2011.
3 Fan Wei Guo, who was appointed as Executive Director on 25 May 2011, was re-designated as an Non-executive Director on 17 May 2012 and resigned as Non-executive Director on 1 March 2013.
4 Chai Ming resigned as Executive Director on 11 July 2011.
5 Chiu Yeung resigned as Executive Director on 15 March 2011.
6 Jin Jiu Xin resigned as Executive Director on 21 April 2011.
7 Zhao Qing resigned as Executive Director on 6 January 2013.

For the years ended 31 December 2012 and 2011, remunerations of all directors of the Company fall within HK$Nil to HK$1,000,000.

During the year ended 31 December 2012, no amounts have been paid by the Group to the directors as inducement to join the Group, as compensation for loss of office or as commitment fees to existing directors for entering into new services contracts with the Group (2011:Nil).

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2011:Nil).

11. EMPLOYEES' EMOLUMENTS

The five highest paid employees during the year included three (2011: two) directors, details for whose remuneration are set out in Note 10 above. Details of the remuneration of the remaining two (2011: three) highest paid, non-director employees are as follows:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	1,096	1,318
Mandatory provident fund contribution	39	35
	1,135	1,353

Retirement benefit scheme

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000. Contributions to the scheme vest immediately.

The employees of the Company's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basic salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or postretirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represent for the entire pension obligations payable to retired employees.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries outside Hong Kong and the PRC. In the opinion of the Directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2012 (2011: Nil) in respect of the retirement of its employees.

Share-based payment transactions

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 May 2011. The purpose of the Scheme is to enable the Company to grant options to the Eligible Persons (as defined under the Scheme) as incentive or reward for their contribution to the growth of the Group or Invested Entities (as defined under the Scheme) and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Persons.

11. EMPLOYEES' EMOLUMENTS (Continued)

Share-based payment transactions (Continued)

As at 31 December 2012, the number of shares in respect of options that had been granted and remained outstanding under the Scheme was 500,000 (2011: 500,000), representing 0.0036% (2011: 0.004%) of the shares of the Company in issue. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Details of option outstanding as at 31 December 2012 are as follows:

Option type	Date of grant	Exercise period	Exercise price	Fair value at grant date
2011	26 July 2011	From 26 July 2011 to 25 July 2013	HK$0.355	HK$0.108

In accordance with the terms of the Scheme, options granted during the year ended 31 December 2011 vested at the date of grant.

The fair value of the share options is determined using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility over the past 5 years. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after vesting date when the share price was two and a half times the exercise price.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Input into the model

Share price	HK$0.510
Exercise price	HK$0.355
Expected volatility	32.506%
Time to maturity	0.569 year
Risk-free interest rate	0.05%

11. EMPLOYEES' EMOLUMENTS (Continued)

Input into the model (continued)

The following table discloses movements of the Company's share options during the year:

Option type	Outstanding at 1/1/2012	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31/12/2012
2011	500,000	–	–	–	–	500,000
Exercisable at the end of the year						500,000
Weighted average exercise price	HK$0.355	–	–	–	–	HK$0.355

There was no option exercised during the year ended 31 December 2012 (2011: Nil).

12. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made since the Group incurred taxation losses for the year. Taxes on profits assessable elsewhere have been calculated at the prevailing rates of tax based on existing legislation, interpretations and practices.

	Group	
	2012 HK$'000	2011 HK$'000
Current tax:		
PRC corporate income tax	5,420	14,837
Deferred tax	(95,912)	(166,244)
	(90,492)	(151,407)

12. INCOME TAX EXPENSE (Continued)

A reconciliation of the tax expense applicable to loss before income tax using the statutory rates for the tax jurisdictions in which the Company and the majority of its subsidiaries are domiciled is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
		(Restated)
Loss before income tax	**(1,059,038)**	(871,181)
Tax at the statutory tax rates	**(191,399)**	(216,016)
Tax effect of income not taxable for tax purpose	**(5,183)**	(2,638)
Tax effect of expense not deductible for tax purpose	**86,270**	234,805
Tax effect of temporary difference	**95,912**	166,244
Tax effect of recognised tax losses	**–**	(30,988)
Tax effect of unrecognised tax losses	**104,892**	–
Tax credit for the year	**90,492**	151,407

13. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2012 include a net loss of approximately HK$488,185,000 (2011: HK$440,297,000) which has been dealt with in the financial statements of the Company.

14. DIVIDENDS

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2012 (2011: Nil).

15. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share amount is based on the net loss for the year of HK$852,471,000 (2011: net loss of HK$487,522,000) attributable to equity holders of the Company, and weighted average of 13,175,630,408 (2011:12,952,911,230) ordinary shares in issue during the year.

(b) Diluted loss per share

The calculation of diluted loss per share amount is based on the net loss for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible notes. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares of 13,175,630,408 in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares 2,600,000,000 assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares at the beginning of the year ended.

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Mining structure and buildings HK$'000	Plant and machinery HK$'000	Leasehold improvement HK$'000	Furniture, fixture and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At cost:						
At 1 January 2011	156,023	130,647	536	18,964	41,176	347,346
Additions	32,566	9,451	–	2,618	23,023	67,658
Disposals	–	–	–	(20)	–	(20)
Exchange adjustments	6,054	4,229	–	424	1,802	12,509
At 31 December 2011 and at 1 January 2012	194,643	144,327	536	21,986	66,001	427,493
Additions	29,173	5,349	–	710	45,010	80,242
Disposals	(14,218)	(5,289)	–	(344)	–	(19,851)
Write off	–	(16,386)	–	–	–	(16,386)
Exchange adjustments	1,296	755	–	85	832	2,968
At 31 December 2012	**210,894**	**128,756**	**536**	**22,437**	**111,843**	**474,466**
Accumulated depreciation and impairment:						
At 1 January 2011	25,395	69,492	430	12,513	–	107,830
Charge for the year	7,973	21,398	53	3,105	–	32,529
Disposals	–	–	–	(12)	–	(12)
Exchange adjustments	1,023	2,207	–	238	–	3,468
At 31 December 2011 and at 1 January 2012	34,391	93,097	483	15,844	–	143,815
Charge for the year	9,541	21,192	53	2,814	–	33,600
Disposals	(184)	(1,102)	–	(292)	–	(1,578)
Write off	–	(16,386)	–	–	–	(16,386)
Exchange adjustments	295	650	–	69	–	1,014
At 31 December 2012	**44,043**	**97,451**	**536**	**18,435**	**–**	**160,465**
Net carrying value:						
At 31 December 2012	**166,851**	**31,305**	**–**	**4,002**	**111,843**	**314,001**
At 31 December 2011	160,252	51,230	53	6,142	66,001	283,678

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

	Furniture, fixture and motor vehicles HK$'000
At cost:	
At 1 January 2011, at 31 December 2011, at 1 January 2012 and at 31 December 2012	3,186
Accumulated depreciation:	
At 1 January 2011	2,427
Charge for the year	217
At 31 December 2011 and 1 January 2012	2,644
Charge for the year	542
At 31 December 2012	3,186
Net book value:	
At 31 December 2012	**–**
At 31 December 2011	542

Notes:

(a) As at 31 December 2012, the directors conducted a review of the Group's property, plant and equipment and determined that no impairment loss was necessary to be recognised in the profit or loss (2011: HK$Nil).

(b) As at 31 December 2012, mining structure and buildings with a carrying value of HK$Nil (2011: HK$160,252,000) were pledged to the bank as a security for banking facilities granted to a subsidiary of the Company.

17. INVESTMENT PROPERTIES

	Group	
	2012	2011
	HK$'000	HK$'000
At fair value:		
At 1 January 2012/2011	–	153,501
Additions	–	35,452
Exchange adjustment	–	5,424
	–	194,377
Transfer to non-current assets classified as held for sales	–	(194,377)
At 31 December 2012/2011	–	–

On 30 December 2011, the Group has disposed of its investment properties through the sales of the entire equity interests in Longwell International Holdings Limited and its subsidiary at a consideration of HK$170,000,000. As the transaction has been completed subsequent to the year end 31 December 2011, the fair value of approximately HK$194,377,000 has been transferred to non-current assets classified as held for sales and included under current assets in the consolidated statement of financial position as at 31 December 2011. The fair value of the investment properties as at the date of disposal were carried out by Carea Assets Appraisal Company Limited, an independent qualified professional valuer not connected to the Group and are members of the China Appraisal Society, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The fair value of the investment properties were measured using the fair value model and were arrived at by reference to market evidence of transaction prices for similar properties. No fair value change has been recognised for the investment properties for the year ended 31 December 2011 as the Group adopted HKFRS 5 to account for the Group's investment properties.

18. INTEREST IN ASSOCIATES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost				
Hong Kong	**–**	1	**–**	1
PRC	**579,657**	42,561	**–**	–
	579,657	42,562	**–**	1
Share of post-acquisition loss, net of dividends received	**(134)**	–	**–**	–
	579,523	42,562	**–**	1
Amounts due from associates	**58,276**	4,145	**47,322**	158
	637,799	46,707	**47,322**	159
Disposal of associates	**–**	(46,707)	**–**	(159)
	637,799	–	**47,322**	–

Amounts due from associates are unsecured, interest-free and recoverable on demand.

The movements in accumulated impairment loss is summarised as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January 2012/2011	**–**	46,549	**–**	1
Impairment loss recognised	**–**	158	**–**	–
Eliminated on disposal of associates	**–**	(46,707)	**–**	(1)
At 31 December 2012/2011	**–**	–	**–**	1

As at 31 December 2012, the Group had interests in the following associates.

18. INTEREST IN ASSOCIATES (Continued)

Name of associate	Registered and paid up capital	Place of establishment	% of interest held	Principal activities
Jilin Province Rui Sui Kuang Ye Company Limited *(Note 1)*	RMB90,000,000	PRC	25%	Exploration of iron and molybdenum mines

As at 31 December 2011, the Group did not have any interest in associate company.

The summarised financial information in respect of the Group's associates is set out below:

	2012 HK$'000	2011 HK$'000
Total assets	2,377,678	–
Total liabilities	(59,586)	–
Net assets	2,318,092	–
Group's share of net assets of associates	579,523	–
Revenue	–	–
Loss for the year	(536)	–
Group's share of results of associates during the year	(134)	–

18. INTEREST IN ASSOCIATES (Continued)

Notes:

(1) As at 31 December 2012, the Group had 25% equity interests in Jilin Province Rui Sui Kuang Ye Company Limited ("Rui Sui"), a company established in the PRC and principally engaged in exploration of iron and molybdenum mine in the PRC. Rui Sui was a non-wholly owned subsidiary of the Group as at 31 December 2011, which the Group had 51% equity interests in Rui Sui. During the year ended 31 December 2012, the Group disposed of 26% equity interests in Rui Sui and therefore Rui Sui, in which the Group holds the remaining 25% equity interests, has been classified as associate of the Group.

(2) During the year ended 31 December 2011, the Group disposed of its 27% equity interests in Tonghua Hengan Pharmaceutical Holdings Company Limited ("Hengan") at a consideration of HK$9,810,000. The carrying value of Hengan had been fully impaired in previous years which was due to the termination of Hengan's operation resulting from a transport infrastructure plan implemented by the local government and required to occupy the land where the Hengan's factory was located. This transaction has resulted in the recognition of a gain in profit or loss, calculated as follows:

	HK$'000
Proceeds of disposal	9,810
Less: carrying amount of Hengan as at the date of disposal	–
Gain recognised	9,810

(3) During the year ended 31 December 2011, the Group's 50% interests in Joy Route Limited and 30% interests in Fulin Enterprise Limited had been disposed of by the Group at its nominal value. There was no material gain or loss had been recognised by the Group as these associate companies were inactive during the year ended 31 December 2011.

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**530,825**	1,200,626
Less: Impairment loss of investments in subsidiaries	**(374,385)**	(374,385)
	156,440	826,241
Amounts due from subsidiaries	**1,940,312**	887,579
Less Impairment loss of amount due from subsidiaries	**(304,357)**	(304,357)
	1,635,955	583,222
	1,792,395	1,409,463

19. INVESTMENTS IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries are unsecured, interest-free and recoverable on demand. The amounts will not be repayable within twelve months from the end of reporting period, accordingly, the amounts are classified as non-current assets in the Company's statement of financial position.

Particulars of the principal subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ establishment	Registered capital/ issued capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Sun Man Tai International (B.V.I.) Limited	British Virgin Islands	Ordinary HK$274,051	100%	–	Investment holding
Golden Finance Company Limited	Hong Kong	Ordinary HK$2,000,000	–	100%	Investment holding
Shanghai Yuan Bei Trading Limited#	PRC	Registered capital RMB30,000,000	–	100%	Investment holding
Shanghai Xin Tong Trading Limited#	PRC	Registered capital RMB20,000,000	–	100%	Investment holding
BOC Mantai Property Management (Shanghai) Corporation Limited#	PRC	Registered capital US$200,000	–	100%	Properties management
Shaanxi Province Luo Nan Xian Jiu Long Kuang Ye Company Limited# ("Jiu Long Kuang Ye")	PRC	Registered capital RMB90,000,000	–	65%	Exploration and exploitation of molybdenum mines, sales of molybdenum concentrates

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

For identification purpose only

20. PREPAID LEASE PAYMENTS

As at 31 December 2012 and 2011, prepaid lease payments represent costs paid for medium-term leasehold lands in the Peoples Republic of China ("PRC") that is classified as an operating lease. The costs are amortised over the leasehold periods of 15 years to 45 years.

	Group	
	2012	2011
	HK$'000	HK$'000
Net carrying amount		
At beginning of the year	**1,433**	89,423
Addition	**86,122**	229
Disposal of a subsidiary	**–**	(89,395)
Amortisation	**(5,889)**	(2,102)
Exchange realignment	**9**	3,278
At the end of the year	**81,675**	1,433

Prepaid lease payments of the Group are held under the following lease terms:

	Group	
	2012	2011
	HK$'000	HK$'000
Land outside Hong Kong		
— Medium-term lease	**81,675**	1,433

21. EXPLORATION AND EVALUATION ASSETS

	Group		
	Exploration rights	**Evaluation costs**	**Total**
	HK$'000	HK$'000	HK$'000
Cost or valuation			
At 1 January 2011	3,263,048	77,528	3,340,576
Exchange adjustments	–	3,011	3,011
Transfer to non-current assets classified as held for sales	(3,263,048)	(80,539)	(3,343,587)
At 31 December 2011, at 1 January 2012 and at 31 December 2012	–	–	–

21. EXPLORATION AND EVALUATION ASSETS (Continued)

As at 31 December 2011, the Group had two exploration rights in respect of (i) an iron mine located at Da Nan Gou, Jim Dou Xiang, Tong Hua, Jilin Province, the PRC which covers approximately 4.17 km^2 ("Iron Mine"); and (ii) a molybdenum mine located at Fu Song Xian, Baishan City, Jilin Province, the PRC which covers approximately 9.35 km^2 ("Molybdenum Mine"). Both of the exploration rights were granted by the Land and Resources Bureau of Jilin Province, the PRC and held by Jilin Province Rui Sui Kuang Ye Company Limited ("Rui Sui"), a non-wholly owned subsidiary of the Group.

The evaluation costs represent expenditure paid for provision of services on activities relating to evaluation of the technical feasibility and viability on both Iron Mine and the Molybdenum Mine.

Pursuant to a sale and purchase agreement entered into between the Group and an independent third party on 22 March 2012 in relation to the disposal of 26% equity interests in Rui Sui, the carrying amount of the exploration rights and evaluation costs as at 31 December 2011 were transferred to non-current assets classified as held for sales in accordance with HKFRS 5. Upon the disposal of Rui Sui, the remaining 25% equity interest held thereof is classified as interest in associates.

22. MINING RIGHTS

	Group	
	2012	2011
	HK$'000	HK$'000
Costs:		
At 1 January 2012/2011	**3,840,578**	3,723,277
Disposal of a subsidiary	**(449,000)**	–
Exchange adjustments	**20,029**	117,301
At 31 December 2012/2011	**3,411,607**	3,840,578
Accumulated amortisation and impairment loss:		
At 1 January 2012/2011	**1,084,441**	404,989
Amortisation provided for the year	**84,066**	137,569
Impairment loss provided for the year	**299,582**	509,801
Reversal of impairment loss recognised as a result of disposal of a subsidiary	**(73,000)**	–
Exchange adjustments	**5,973**	32,082
At 31 December 2012/2011	**1,401,062**	1,084,441
Carrying amount:		
At 31 December 2012/2011	**2,010,545**	2,756,137

As at 31 December 2012, the Group had an exploitation rights in respect of a molybdenum mine located at Xi Ban Cha Gou, Huanglongpu Village, Shimen Town, Luonan County, Shaanxi Province, the PRC ("Shaanxi Molybdenum Mine") issued by Land and Resources Bureau of Shaanxi Province, the PRC.

22. MINING RIGHTS (Continued)

As at 31 December 2012, the Group determined the recoverable amounts of cash generating unit ("CGU") for Shaanxi Molybdenum Mine based on value in use calculation. That calculation used cash flows projections based on financial budgets as approved by management covering a 5-year periods, and discount rate of 13.12% for Shannxi Molybdenum Mine with reference to the valuation performed by Sino-Infinite Appraisal Limited as at 31 December 2012. As the recoverable amount of the CGU of Shaanxi Molybdenum Mine was below the carrying amount, an impairment loss of approximately HK$299,582,000 has been recognised to profit or loss and included in other gains and losses in the consolidated income statement respectively.

As at 31 December 2011, the Group had two mining rights in respect of (i) a molybdenum mine located at Xi Ban Cha Gou, Huanglongpu Village, Shimen Town, Luonan County, Shaanxi Province, the PRC ("Shaanxi Molybdenum Mine") granted by Land and Resources Bureau of Shaanxi Province, the PRC; and (ii) a gold iron mine located at Heilongjiang Province, the PRC ("Heilongjiang Gold Iron Mine") granted by Land and Resources Bureau of Heilongjiang Province, the PRC.

As at 31 December 2011, the Group determined the recoverable amounts of cash generating unit for Shaanxi Molybdenum Mine based on value in use calculation. That calculation used cash flows projections based on financial budgets as approved by management covering a 5-year periods, and discount rate of 18.209% for Shannxi Molybdenum Mine and 19.87% for Heilongjiang Gold Iron Mine with reference to the valuation performed by Sino-Infinite Appraisal Limited as at 31 December 2011. As a result, the recoverable amounts of CGU in respect of Shaanxi Molybdenum Mine and Heilongjiang Gold Iron Mine were below their carrying amounts, impairment losses of approximately HK$436,801,000 and HK$73,000,000 have been recognised to profit or loss and included in other gains and losses in the consolidated income statement respectively.

23. OTHER FINANCIAL ASSETS

	Group	
	2012	2011
	HK$'000	HK$'000
Other financial assets		
Promissory notes receivable, non-current	**1,229,931**	54,591

Other financial assets represent present value of promissory notes receivables, details of which are set out below:

Ding Jin Promissory Notes

During the year ended 31 December 2011, the Group entered into a subscription agreement with Shaanxi Ding Jin Mining Company Limited ("Ding Jin"), the Issuer, pursuant to which the Group is eligible to subscribe for the promissory notes issued by Ding Jin. The principal amount of the promissory notes was HK$500 million and carried at interest of HK$100 million, payable on the maturity date, which is 5 years from subscription.

Ding Jin is a company established in the PRC and its principal activity is engaged in the exploitation of mineral mines. Such promissory note is secured by a mining right of an iron mine owned by Shan Xi Yi Zhen Mining Company Limited which is a non-wholly owned subsidiary of Ding Jin. The iron mine is located at Zi Yang Xian, An Kang City, Shan Xi Province, covering approximately 13.54km^2. As at 31 December 2012, the present value of the promissory notes issued by Ding Jin amounted to approximately HK$495,676,000 was derived from using the Discounted Cash Flow method ("DCF"). The effective interest rate incorporated in the DCF was 4.898%.

23. OTHER FINANCIAL ASSETS (Continued)

Rui Sui Promissory Notes

During the year ended 31 December 2012, the Group disposed of 26% equity interests in Rui Sui, for an aggregate consideration of HK$600 million, which was satisfied by a promissory notes carried at a total interest of HK$36 million wholly payable on the maturity date, issued by the purchaser. The maturity date is 3 years from the issue date of the promissory notes.

Rui Sui is a company established in the PRC and its principal activity is engaged in the exploration of iron and molybdenum mine. Rui Sui holds an exploration right of an iron mine covering an area of approximately 4.17 km2 at Da Nan Gou, Jin Dou Xiang, Jilin Province, the PRC and a molybdenum mine located at Fu Song Xian, Baishan City, Jilin Province, the PRC covering an area of approximately 9.35km^2. Such exploration rights have been pledged as security of this promissory note. As at 31 December 2012, the present value of the promissory notes amounted to approximately HK$572,930,000 was derived from using the Discounted Cash Flow method ("DCF"). The effective interest rate incorporated in the DCF was 4.751%.

Yi Tong Promissory Notes

During the year ended 31 December 2012, the Group disposed of 70% equity interests in Heilongjiang Yi Tong Mining Company Limited at a consideration of HK$230 million, of which approximately HK$46 million was settled by cash and approximately HK$184 million was settled by issuance of the promissory note issued by the purchaser. The maturity date is 3 years from the issue date of the promissory notes.

Yi Tong is a company established in the PRC and its principal business is engaged in gold and iron exploration and exploitation, production and sales. Such exploitation and exploration licenses of gold and iron mine which was located at Heilongjiang Province, the PRC, were pledged as security to this promissory note. As at 31 December 2012, the present value of the promissory notes amounted to approximately HK$161,325,000 was derived from using the Discounted Cash Flow method ("DCF"). The effective interest rate incorporated in the DCF was 4.751%.

24. INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Finished goods	**104,813**	182,142

The cost of inventories recognised as an expense during the year in respect of mining operation was approximately HK$335,223,000 (2011: HK$264,775,000). No provision of obsolete inventories was recognised for the year ended 31 December 2012 (2011: Nil).

25. TRADE RECEIVABLES

	Group 2012 HK$'000	Group 2011 HK$'000
Trade and bills receivables	39,870	6,999
Less: Impairment loss on trade and bills receivables	–	(6,999)
	39,870	–

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

	Group 2012 HK$'000	Group 2011 HK$'000
0–30 days	20,297	–
31–60 days	10,140	–
61–90 days	9,433	–
Over 180 days but within one year	–	6,999
	39,870	6,999

Movements in impairment of trade receivables are as follows:

	Group 2012 HK$'000	Group 2011 HK$'000
At the beginning of year	6,999	–
Exchange realignment	(27)	–
(Reversal of impairment)/Allowance for the year	(6,972)	6,999
At the end of year	–	6,999

The aging of trade receivables which are past due but not impaired are as follows:

	Group 2012 HK$'000	Group 2011 HK$'000
31–60 days	10,140	–
61–90 days	9,433	–
Over 180 days but within one year	–	–
	19,573	–

25. TRADE RECEIVABLES (Continued)

For the year ended 31 December 2012, trade debtors that were not impaired nor past due related to customers for whom there was no recent history of default. Based on experience, management believed that no impairment loss shall be recognised as there has not been a significant change in credit quality and the balances are still considered recoverable (2011: impairment loss of approximately HK$6,999,000).

The directors consider that the fair values of trade receivables are not materially different from their carrying value because these amounts have short maturity period on their inception.

For the Group's mining operation, sales of molybdenum concentrates are largely on cash basis with no credit terms being granted to customers, except for sizable customers with good credit history, the Group will allow a credit term not more than 30 days.

During the year, a major subsidiary of the Group discounted bills receivable to banks in exchange for cash and cash equivalent with recourse in the ordinary course of business. The Group continues to recognise the full amount of bills receivable and has recognised the cash and cash equivalent received as secured bills payable.

Included in trade and bills receivables, the carrying amount of discounted bills receivable is approximately HK$38,883,000 (2011:Nil). The carrying amount of the associated liability is approximately HK$15,132,000 (2011: HK$Nil).

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

As at 31 December 2012, balances of prepayments, deposits and other receivables includes loan receivables of approximately HK$67,667,000 (RMB55,000,000) in respect of loans granted to the minority shareholders of Jiu Long Kuang Ye, a principal subsidiary of the Group operating in exploitation of molybdenum mine. The loan receivables was secured by the minority shareholders' respective shareholdings in Jiu Long Kuang Ye, carried on interests of 3% per annum and recoverable in one year.

As at 31 December 2011, balances of prepayments, deposits and other receivables includes (i) consideration receivables of approximately HK$61,132,000 (RMB50,000,000) in respect of disposal of subsidiaries which has been fully received in February 2012; (ii) dividend receivables of approximately HK$4,274,000 (RMB3,500,000) in respect of the dividend declared by Xian Communication University Second Affiliated Middle School Southern District; and (iii) approximately HK$64,619,000 were due from a subsidiary which has been disposed of subsequent to the end of the reporting period. That subsidiary will become an associate company to the Group, accordingly the balance of which will be re-classified to amount due to associate company upon completion of the disposal. The remaining balances of prepayments, deposits and other receivables were arising from the Group's normal operations.

For the year ended 31 December 2012, the Group provided an impairment loss of Nil (2011: HK$5,516,000) on prepayments, deposits and other receivables which in the opinion of the directors, the recoverable for such amounts were in doubt.

The amount of the Group's and the Company's prepayments, deposits and other receivables are expected to be recovered or recognised as expense after more than one year was approximately HK$519,000 (2011: HK$519,000). All of the other prepayments, deposits and other receivables are expected to be recovered or recognised as expense within one year.

In the opinion of the directors, the fair values of prepayments, deposits and receivables are not materially different from their amounts because these amounts have short maturity periods on their inception.

27. SHARE CAPITAL

	Notes	Company Number of shares '000	Company Nominal value HK$'000
Authorised:			
Ordinary shares of HK$0.016 each			
At 1 January 2011, at 31 December 2011 and at 1 January 2012 and at 31 December 2012		31,250,000	500,000
Issued and fully paid:			
At 1 January 2011		12,560,116	200,961
Placing of shares	(a)	442,500	7,080
At 31 December 2011 and at 1 January 2012		13,002,616	208,041
Placing of shares	(b)	300,000	4,800
Conversion of convertible notes	(c)	700,000	11,200
At 31 December 2012		**14,002,616**	**224,041**

The movements in the Company's share capital are summarised as follows:

(a) On 24 January 2011, the Company entered into a placing agreement with the place, pursuant to which the Company has conditionally agreed to place 442,500,000 shares at a price of HK$0.32 per share through such placement to an independent third party. The placing of shares raised HK$141,600,000 and the agreement was completed on 10 February 2011.

(b) On 31 May 2012, the Company entered into a placing agreement with the placee, pursuant to which the Company has conditionally agreed to allot and issue and the placee has agreed to subscribe for 300,000,000 placing shares at a price of HK$0.26 at par. The placee is an independent third party. The placing of shares raised HK$78,000,000 and the allotment of shares was completed on 7 June 2012.

(c) On 31 May 2012, the Company entered into a convertible note option agreement with an independent third party. Pursuant to the convertible note option agreement, the independent third party is eligible to subscribe for 700,000,000 shares and the conversion price shall be HK$0.36. The conversion of convertible note option raised HK$252,000,000 and the allotment of shares was completed on 17 December 2012.

All new shares issued ranked pari passu with the existing shares in all respects.

28. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 35 of the annual report.

The Company

	Share premium HK$'000	Contribution surplus[a] HK$'000	Special reserve[d] HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	2,122,285	115,615	–	(708,506)	1,529,394
Loss and total comprehensive expense of the year	–	–	–	(440,297)	(440,297)
Placing of shares	134,520	–	–	–	134,520
At 31 December 2011	2,256,805	115,615	–	(1,148,803)	1,223,617
Loss and total comprehensive expense of the year	–	–	–	(488,185)	(488,185)
Placing of shares	73,200	–	–	–	73,200
Conversion of convertible notes	240,800	–	–	–	240,800
At 31 December 2012	**2,570,805**	**115,615**	**–**	**(1,636,988)**	**1,049,432**

Notes:

(a) The contribution surplus represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium of the subsidiaries acquired pursuant to the Group reorganisation in 1995.

According to Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its shareholders out of the contributed surplus. However, a company cannot declare or pay a dividend or make a distribution out of contributed surplus if (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; and (ii) the realizable value of the Company's assets would thereby be less than the aggregate its liabilities and its issued share capital and share premium accounts.

In the opinion of directors, the Company did not have any reserves available for distribution to shareholders at 31 December 2011 and 2010.

(b) Included in the consolidated statements of changes in equity, revaluation reserves represent the revaluation of the exploration and evaluation assets that have been recognised in other comprehensive income.

28. RESERVES (Continued)

The Company (Continued)

Notes: (Continued)

(c) Included in the consolidated statement of changes in equity, statutory reserve comprises of (i) statutory surplus and statutory welfare fund reserves; and (ii) statutory reserve for safety production of molybdenum ore, which has been summarised below:

(i) Statutory surplus and statutory welfare fund reserves

In accordance with articles of association of the Company's subsidiaries established in the PRC ("PRC Subsidiaries"), PRC Subsidiaries shall appropriate 10% of its annual statutory net profit (after net off against any prior years' losses), prepared in accordance with the accounting principles and financial regulations (the "GAAP") to the statutory surplus reserve. When the balance of such statutory surplus reserve reaches 50% of the entity's share capital, any further appropriation is optional.

(ii) Statutory reserves for safety production of molybdenum ore

In accordance with regulations in the PRC relating to the mining industry, PRC subsidiary operates in mining operation is required to transfer an amount from retained profits to the statutory reserve account annually. The utilisation of the amount in the statutory reserve account is subject to the rules in the PRC Companies Law and the statutory reserves account is not available for distribution to equity holders.

(d) Special reserve represents the Company's ordinary shares to be issued for acquisition of a subsidiary. On 5 July 2009, the Group entered into an acquisition agreement with independent third parties (the "Vendors") to acquire 65% equity interests of Shaanxi Province Luo Nan Xian Jiu Long Kuang Ye Company Limited for total consideration of 1,366,940,000 shares of the Company (the "Consideration Shares") at an issue price of HK$0.60 per Consideration Share. The acquisition agreement was completed on 2 December 2009, but the Consideration Shares were not yet issued to the Vendors as at 31 December 2009 and therefore recorded as special reserve in the consolidated statement of changes in equity. The Consideration Shares were then issued by the Company to the Vendors on 12 January 2010.

(e) Included in the consolidated statement of changes in equity, exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss on the disposal of the foreign operations.

29. DEFERRED TAX LIABILITIES

	Group		
	Exploration and evaluation assets	Mining rights	Total
	HK$'000 (Restated)	HK$'000	HK$'000
At 1 January 2011	814,142	833,808	1,647,950
Transferred to assets classified as held for sales	(814,142)	–	(814,142)
Credited to profit or loss	–	(166,244)	(166,244)
Exchange adjustment	–	25,858	25,858
At 31 December 2011 and at 1 January 2012	–	693,422	693,422
Disposal of a subsidiary	–	(94,000)	(94,000)
Credited to profit or loss	–	(95,912)	(95,912)
Exchange adjustment	–	3,540	3,540
31 December 2012	**–**	**507,050**	**507,050**

The Group and the Company did not have any significant unprovided deferred tax liabilities at 31 December 2012 (2011: Nil).

30. TRADE PAYABLES

	Group	
	2012	2011
	HK$'000	HK$'000
0–30 days	**29,554**	52,610
31–60 days	**15,587**	10,081
61–90 days	**2,557**	5,611
91–180 days	**4,503**	–
Over 180 days but within one year	**63,401**	5,562
	115,602	73,864

The directors consider that the carrying amounts of trade payables approximate to their fair values at the end of reporting period.

31. PROVISION FOR ENVIRONMENTAL AND RESOURCES TAX

	Group	
	2012	2011
	HK$'000	HK$'000
Environmental and resources tax	**98,425**	97,847

During the year ended 31 December 2010, a subsidiary of the Group was demanded an immediate payment of the environmental and resources tax by the local authorities in the amounts of approximately RMB170,000,000 upon renewing the its mining license. As at 31 December 2012, the outstanding balances of the environmental and resources tax was approximately HK$98,425,000 (RMB80,000,000).

32. OTHER PAYABLES AND ACCRUALS

All of the Group's and the Company's other payables and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

The directors consider that the carrying amounts of other payables and accruals approximate to their fair values at the end of reporting period.

33. BANK LOANS AND OTHER BORROWINGS

	Group	
	2012	2011
	HK$'000	HK$'000
Interest bearing bank loans, secured	**94,611**	59,870
Current portion	**94,611**	59,870

As at 31 December 2012, the Group's interest-bearing bank loans were carried at effective interest rates from 6.9% to 9.6% per annum and were secured by (i) a guarantee from an independent insurance company; (ii) the molybdenum concentrate as included in inventories amounted to 1,380 tons; (iii) personal guarantee from a subsidiary of the Group and the subsidiary's minority shareholders.

Included in interest bearing bank loans, amount of RMB26,900,000, with a maturity date of approximately two years from the end of the reporting period possesses a clause in their terms that gives the lender an overriding right to demand repayment without notice or at its sole discretion. Such bank loan, in this respect, is classified as current liabilities even though the directors do not expect that the lender would exercise their rights to demand repayment.

33. BANK LOANS AND OTHER BORROWINGS (Continued)

As at 31 December 2011, the Group's interest-bearing bank loans carried at fixed interest rate ranging from 6% to 7.43% p.a. and were secured by (i) term deposits of RMB20,000,000 provided by the Group's related companies; (ii) mining structure and buildings held by the Group's subsidiary with carrying amount of approximately HK$160,252,000; (iii) the exploitation right certificate of a molybdenum mine held by the Group's subsidiary; and (iv) corporate guarantee provided by an independent insurance company with a counter-guarantee of molybdenum provided by the Group's subsidiary.

34. OTHER FINANCIAL LIABILITIES

	Group	
	2012	2011
	HK$'000	HK$'000
Convertible note option	**647,009**	23,000

On 19 July 2011, the Company issued an option ("CN Option") to potential subscribers the rights to fully or partially subscribe for the convertible notes ("Convertible Notes") within three years immediately after the issue date ("Option Period"). According to the terms of the CN Option, the Company may require each of the potential subscribers to fully or partially subscribe for the Convertible Notes to be issued by the Company within the Option Period. The principal amounts of the Convertible Notes was approximately HK$754,000,000 resulting an convertible shares of approximately 2,600,000,000 shares at HK$0.29 to be issued by the Company if the potential subscribers fully subscribe and exercise the Convertible Notes. The Convertible Notes are interest free with a maturity of three years from the date of issuance.

The fair value of the CN Option is determined using the Binomial Option Pricing Model with reference to the parameters listed and identified below:

Share price (HKD)	0.510
Strike price (HKD)	0.290
Time to maturity	1.553
Risk free rate (%)	0.115
Credit spread (%)	2.850
Volatility (%)	46.09

As at 31 December 2012, the option had not been exercised by both the Company and the potential subscribers.

35. AMOUNTS DUE TO RELATED PARTIES

Group

The amounts due to related parties are unsecured, carried at interest rate of 12% per annum and repayment of demand. The related parties are those minority shareholders and directors of the Group's subsidiary.

36. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALES

As at 31 December 2012, there were no assets classified as non-current assets held for sales.

As at 31 December 2011, the assets and liabilities have been classified as non-current assets held for sales were summarised below:

	Group			
	Longwell Group[(a)]	Pre-completion investment properties[(b)]	Rui Sui Kuang Ye[(c)]	Total 2011
	HK$'000	HK$'000	HK$'000	HK$'000
Investment properties	194,377	–	–	194,377
Exploration and evaluation assets	–	–	3,343,587	3,343,587
Prepayments, deposits and other receivables	5,484	198,606	–	204,090
Other payables and accruals	(22)	–	(64,619)	(64,641)
Deferred tax liabilities (restated)	–	–	(814,142)	(814,142)
Statutory reserves	(3,007)	–	–	(3,007)
Exchange reserves	(56,319)	–	–	(56,319)
	140,513	198,606	2,464,826	2,803,945
Less: Impairment loss on re-measurement of non-current assets held for sales (restated)	–	–	(157,134)	(157,134)
	140,513	198,606	2,307,692	2,646,811

(a) On 30 December 2011, the Company entered into a sale and purchase agreement to dispose of the entire equity interests in Longwell International Holdings Limited and its subsidiary ("Longwell Group") which are principally engaged in the business of leasing of shopping mall space in Changchun, the PRC. The disposal has been completed in January 2012. No impairment loss was recognised on reclassification of the assets as held for sale at 31 December 2011.

(b) Subsequent to the end of the reporting period, the Group disposed of various pre-completion investment properties located in Xian, the PRC. The pre-completion investment properties were originally planned to be used as the Group's office as well as for leasing purpose. No impairment loss was recognised on reclassification of the assets as held for sale at 31 December 2011.

36. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALES (Continued)

(c) On 22 March 2012, the Group entered into a sale and purchase agreement to dispose of 26% equity interests in Jilin Province Rui Sui Kuang Ye Company Limited ("Rui Sui Kuang Ye"). The disposal of Rui Sui Kuang Ye was completed in June 2012. Impairment loss of approximately HK$375,695,000 has been recognised on the reclassification of the assets as held for sales at 31 December 2011.

37. CONTINGENT LIABILITIES AND ASSETS AND CAPITAL COMMITMENTS

Contingent liabilities:

The Group had no other material contingent liabilities as at 31 December 2012 (2011: Nil).

Contingent assets:

During the year ended 31 December 2009, the directors of the Company discovered that, without their knowledge and consent, the land where the property development project held by a subsidiary of the Company in the PRC to be erected was surrendered to an independent party by the Group's joint venture partner in the property development project, in a suspected fraud ("Suspected Fraud Transaction"). The Company had reported the case to the PRC police and several persons involved in the Suspected Fraud Transaction has been arrested. As a result, a civil settlement agreement were entered between the joint venture partner and a subsidiary of the Company that the joint venture partner would compensates the Company (i) a sum of RMB30,000,000 in cash ("Cash Compensation"); and (ii) the entire equity holdings in Xian Communication University Second Affiliated Middle School Southern District with the market value of approximately RMB183,972,000 valued by an independent valuer as at 31 December 2009 ("Compensation Assets").

The Group has not recognised the Compensation Assets but disclosed in the consolidated financial statements as the inflow of economic benefits is probable but not yet virtually certain. As at the date of this report, the title of the Compensation Assets has not yet transferred to the Group.

Save as disclosed above, the Group had no other material contingent assets as at 31 December 2012 (2011: Nil).

Capital commitments:

As at 31 December 2012, the Group did not have any material capital commitments (2011: Nil).

38. OPERATING LEASE COMMITMENTS

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

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	2,890	1,935
In the second to fifth years inclusive	3,226	1,738
	6,116	3,673

39. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group has the following balances and transactions with related parties:

(a) At the end of the reporting period, the Group entered into the following balances with related parties:

	Amount due from related parties		Amount due to related parties	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Related parties	–	–	67,577	60,755

The amounts outstanding are unsecured and will be settled in cash. No guarantee has been given or received. No expenses have been recognised in the period for bad or doubtful debts in respect of the amounts due from related parties.

(b) Compensation of key management personnel

Remuneration for key management personnel, including amount paid to the Company's directors and certain of the highest paid employees, as disclosed in Notes 10 and 11 to the consolidated financial statements is follows:

	2012	2011
	HK$'000	HK$'000
Short-term employee benefits	2,563	2,823
Mandatory Provident Fund contribution	65	58
	2,628	2,881

40. MAJOR NON-CASH TRANSACTIONS

The Group's inventories with carrying amounts of approximately HK$102,495,000 were transferred to Issuer for subscription of promissory notes as disclosed in Note 23 to the consolidated financial statements. The directors considered that the carrying amounts of inventories were approximate to its fair value at the date of transfer.

41. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2012

(i) The Group disposed of the entire equity interest in Longwell International Holdings Limited and its subsidiaries ("Longwell group") at a cash consideration of HK$170,000,000.

(ii) The Group disposed of 70% equity interests in Heilongjiang Yi Tong Mining Company Limited at a consideration of HK$230,000,000 of which HK$46,000,000 has been satisfied by cash and HK$184,000,000 was satisfied by a promissory notes issued by the Purchaser as disclosed in notes 23 to the consolidated financial statements.

(iii) The Group disposed of 26% equity interests in Jilin Province Rui Sui Kuang Ye Company Limited ("Rui Sui Kuang Ye") at a consideration of HK$600,000,000 which was satisfied by a promissory notes issued by the Purchaser as disclosed in note 23 to the consolidated financial statements.

For the year ended 31 December 2011

The Group disposed of the entire equity interest of in Tonghua Golden Life Resource Development Company Limited ("Disposal Subsidiary") at a cash consideration of approximately RMB50,000,000 (equivalent to HK$61,132,000).

41. DISPOSAL OF SUBSIDIARIES (Continued)

The net assets of the subsidiary at the date of disposal were as follows:

	2012				2011
	Longwell Group HK$'000	Yi Tong Mining HK$'000	Rui Sui Kuang Ye HK$'000	Total HK$'000	Total HK$'000
Investment properties	194,377	–	–	194,377	–
Prepaid lease payments	–	–	–	–	89,395
Exploration and evaluation assets	–	–	3,343,587	3,343,587	–
Mining rights	–	376,000	–	376,000	–
Prepayments, deposits and other receivables	5,484	–	–	5,484	–
Other payables and accruals	(22)	–	(64,619)	(64,641)	–
Deferred tax liabilities (restated)	–	(94,000)	(814,142)	(908,142)	–
Statutory reserves	(3,007)	–	–	(3,007)	–
Exchange reserves	(56,319)	(605)	(4,769)	(61,693)	(5,432)
	140,513	281,395	2,460,057	2,881,965	83,963
Fair value change from re-measurement of assets and liabilities	32,623	–	(157,134)	(124,511)	–
	173,136	281,395	2,302,923	2,757,454	83,963
Less: Non-controlling interests	–	(78,108)	(1,120,422)	(1,198,530)	–
Less: Interest in an associate *(Note 18)*	–	–	(579,657)	(579,657)	–
	173,136	203,287	602,844	979,267	83,963
Gain/(Loss) on disposal	(3,136)	26,713	(2,844)	20,733	(22,831)
Total consideration	170,000	230,000	600,000	1,000,000	61,132

41. DISPOSAL OF SUBSIDIARIES (Continued)

Net cash inflow arising on disposal:

	2012 HK$'000	2011 HK$'000
Cash consideration received	216,000	61,132
Bank balances and cash disposed of	–	–
	216,000	61,132

For the period from the beginning of the reporting period to the date of disposal of respective subsidiaries, no revenue nor results has been contributed by the disposal subsidiary to the loss of the Group for the year ended 31 December 2012 (2011: Nil).

42. FINANCIAL INSTRUMENTS

Categories of financial instruments

Financial assets

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Loans and receivables (including cash and cash equivalents)	1,777,322	258,898	84,088	47,991
Financial liabilities				
Fair value through profit or loss				
Designated as at FVTPL	647,009	23,000	647,009	23,000
Amortised cost	980,131	274,957	3,323	3,338
	1,627,140	297,957	650,332	26,338

43. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's treasury department, including the board of directors meets periodically to analyse and formulate strategies to manage and monitor the Group's exposure to a variety of risks associate with financial instruments which arise from the Group's operating and investing activities. Generally, the Group employs conservative strategies regarding its risk management to ensure appropriate measures are implemented on a timely and an effective manner. The risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

(a) Market risk

(i) Foreign exchange risk

The business transactions of the Group conducted during the year were mainly denominated and settled in either RMB or HKD. The Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the needs arises.

Based on the market condition at end of reporting period, the Group determined that it is reasonably possible for RMB to strengthen/weaken by 10% against HKD in the coming twelve months (2011: 10%). Hence, 10% is the sensitivity rate used in the current year when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items and based on the assumption that other variables are held constant. A positive number below indicates an increase in profit or equity where RMB strengthens 10% against HKD. For a 10% weakening of RMB against HKD, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	2012 HK$'000	2011 HK$'000
Profit or loss[1]	6,850	16,504
Equity[2]	176,667	137,043

Notes:

(1) This is mainly attributable to the exposure outstanding on receivable and payable denominated in RMB at the end of the reporting period.

(2) This is mainly attributable to the reserves which are denominated in RMB included in equity at the end of the reporting period.

(3) In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during the year.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

The Group does not have material exposure to interest rate risk, as the Group has no financial assets and liabilities of material amounts with floating interest rate except for bank borrowings. The sensitivity analyses below have been determined based on the exposure to interest rates for bank borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease in interest rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2012 would decrease/increase by HK$473,055 (2011: HK$299,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings. Changes in interest rates have no impact on other comprehensive income for the year ended 31 December 2012.

(iii) Other price risk

The Group does not exposed to equity price risks as the Group does not have any equity investments at the end of the reporting period.

(b) Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Credit risk on trade receivable is minimal because most of the transactions related to mining operation were made on cash basis with no credit term given to its customers, except for sizable customers and with good credit history with the Group. For the year ended 31 December 2012, the Group's management believes that no impairment loss shall be recognised (2011: HK$5,999,000) as there has been a significant change in credit quality and balances are considered to be receivable.

Credit risk on cash and bank balances is mitigated as counterparties are banks or financial institutions with high credit rating. Credit risk on prepayments, deposit and other receivables is minimal as the Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivables balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. As at 31 December 2012, the Group held collateral over its financial assets in respect of promissory note receivables which are secured by the mining rights held by the counterparty. Except for this, none of the Group's financial assets and securitized by collateral or other credit enhancements.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. The Group has net current liabilities of approximately HK$394,936,000 (2011: net current assets of approximately HK$2,735,303,000) and net assets of approximately HK$3,274,000,000 at 31 December 2012 (2011: HK$5,039,873,000). The net current liabilities position as at 31 December 2012 was mainly due to the Group recognised a fair value of a financial liabilities (note 34) which was a non-cash transaction. Taken out the effect of these non-cash financial liabilities, the Group has net current assets of approximately HK$252,073,000 as at 31 December 2012. In the opinion of directors, the Group's exposure to liquidity risk is limited.

The following table details the remaining contractual maturities at each of end of reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rate or, if floating based on current rates at end of reporting period) and the earliest date the Group may be required to pay:

2012

	Weighted average interest rate %	On demand or less than 1 month HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	Over 1 years HK$'000	Total HK$'000
Trade payables	–	115,602	–	–	–	115,602
Other payables and accruals	–	112,823	–	–	–	112,823
Bank borrowings	6.9–9.6	–	–	94,611	–	94,611
Amount due to related parties	12	–	67,577	–	–	67,577
		228,425	67,577	94,611	–	390,613

2011

	Weighted average interest rate %	On demand or less than 1 month HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	Over 1 years HK$'000	Total HK$'000
Trade payables	–	73,864	–	–	–	73,864
Other payables and accruals	–	80,210	–	–	–	80,210
Bank borrowings	6.88	–	–	53,877	5,993	59,870
Amount due to related parties	12	–	36,693	24,062	–	60,755
		154,074	36,693	77,939	5,993	274,699

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Fair value of financial instruments

The directors of the Company consider the fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts as stated in the consolidated statement of financial position because of the immediate or short-term maturity of these financial instruments. Accordingly, the analysis on fair values of non-current financial assets and liabilities were not disclosed because these are not materially different from their carrying amount.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

— Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

— Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

— Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2012

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets				
Other financial assets	**–**	**1,229,931**	**–**	**1,229,931**
Financial liabilities				
Other financial liabilities	**–**	**(647,009)**	**–**	**(647,009)**

2011

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Other financial assets	–	54,591	–	54,591
Financial liabilities				
Other financial liabilities	–	(23,000)	–	(23,000)

44. CAPITAL MANAGEMENT

Capital includes equity attributable to the equity holders of the Company. The primary objectives of the Group's capital management are:

(a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;

(b) To support the Group's stability and growth; and

(c) To provide capital for the purpose of the strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group has not adopted any formal dividend policy.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's total capital comprises all components of equity and net debt includes bank borrowing, trade payables and other payables and accruals, less cash and cash equivalents:

The Group's gearing ratio at 31 December 2012 and 2011 was as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Debts[1]	**390,613**	372,546
Cash and cash equivalents[2]	**(368,501)**	(24,305)
Net debts	**22,112**	348,241
Equity	**3,273,540**	5,039,873
Gearing ratio	**0.68%**	6.9%

45. PRIOR YEAR ADJUSTMENTS

In October 2008, the Group acquired 51% equity interests in Jilin Province Rui Sui Kuang Ye Company Limited ("Rui Sui") at a consideration of RMB7,650,000 (approximately HK$8,644,000). As at the date of business combination, Rui Sui has (i) an exploration right to an iron mine located at Da Nan Gou, Jin Dou Xiang, Tong Hua of the Jilin Province of the PRC ("Iron Exploration Right"); and (ii) an exploration right of a molybdenum mine located at Fu Fong Xian, Baishan City, Jilin Province of the PRC which was expired as at the date of business combination ("Molybdenum Exploration Right").

The fair value of the Iron Exploration Right and Molybdenum Exploration Right have not been recognised as at the date of business combination but have been recognised initially at costs and subsequently measured at fair value as at 31 December 2008 and 31 December 2009 respectively under the revaluation model in accordance with HKFRS 6 "Exploration for and Evaluation of Mineral Resources". In accordance with HKFRS 3 "Business Combination", the fair value of the Exploration Rights should have been recognised as at the date of business combination. In addition, deferred tax liabilities for Iron Exploration Right have not been recognised as at the date of business combination. As a result of the consequence and other restatements required, comparative figures have been restated.

For the year ended 31 December 2008
CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December 2008 HK$'000
Loss for the year, as previously reported	(62,794)
Increase in other revenue for negative goodwill arising from acquisition of Rui Sui after the recognition of the fair value for the Iron Exploration Right and Molybdenum Exploration Right *(Note (a))*	1,245,665
Profit for the year, as restated	1,182,871
Loss per share, HK cents, as previously reported	(1.03)
Earnings per share, HK cents, as restated	22.59

45. PRIOR YEAR ADJUSTMENTS (Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2008			
	Previously Stated HK$'000	Adjustments HK$'000	Notes	Restated HK$'000
Assets and liabilities				
Exploration and evaluation assets	888,579	2,382,324	(b)	3,270,903
Deferred taxation	(30,536)	(814,142)	(a)	(844,678)
Total effect on assets and liabilities	858,043	1,568,182		2,426,225
Equity				
Fair value reserves	(445,877)	445,877	(c)	–
Accumulated losses/(Retained profits)	297,492	(1,245,665)	(a)	(948,173)
Non-controlling interests	(436,699)	(768,394)		(1,205,093)
Total effect on equity	(585,084)	(1,568,182)		(2,153,266)

For the years ended 31 December 2009 and 2010

There was no effect to the consolidated income statements arising from the prior year adjustment for the year ended 31 December 2009 and 2010.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2009			
	Previously Stated HK$'000	Adjustments *(Note (d))* HK$'000	Adjustments *(Note (e))* HK$'000	Restated HK$'000
Assets and liabilities				
Deferred taxation	(1,391,174)	–	(218,561)	(1,609,735)
Total effect on assets and liabilities	(1,391,174)	–	(218,561)	(1,609,735)
Equity				
Fair value reserves	(1,357,758)	1,357,758	–	–
Exchange reserves	(19,213)	(627)	–	(19,840)
Retained profits	(482,305)	(1,357,131)	111,466	(1,727,970)
Non-controlling interests	(2,202,083)	–	107,095	(2,094,988)
Total effect on equity	(4,061,359)	–	218,561	(3,842,798)

45. PRIOR YEAR ADJUSTMENTS (Continued)

The cumulative effect of the adjustments as at 31 December 2010 are summarised below:

	As at 31 December 2010			
	Previously Stated HK$'000	Adjustments *(Note (d))* HK$'000	Adjustments *(Note (e))* HK$'000	Restated HK$'000
Assets and liabilities				
Deferred taxation	(1,429,389)	–	(218,561)	(1,647,950)
Total effect on assets and liabilities	(1,429,389)	–	(218,561)	(1,647,950)
Equity				
Fair value reserves	(1,357,758)	1,357,758	–	–
Exchange reserves	(200,261)	(627)	–	(200,888)
Accumulated losses	213,268	(1,357,131)	111,466	(1,032,397)
Non-controlling interests	(2,144,985)	–	107,095	(2,037,890)
Total effect on equity	(3,489,736)	–	218,561	(3,271,175)

For the year ended 31 December 2011
CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December 2011 HK$'000
Loss for the year, as previously reported	(938,335)
Decrease in other operating expenses resulting from decrease in impairment loss on re-measurement of asset held for sales *(Note (f))*	218,561
Loss for the year, as restated	(719,774)
Loss per share, HK cents, as previously reported	(4.62)
Loss per share, HK cents, as restated	(3.80)

45. PRIOR YEAR ADJUSTMENTS (Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2011				
	Previously stated HK$'000	Adjustments *(Note(d))* HK$'000	Adjustments *(Note(e))* HK$'000	Adjustments *(Note (f))* HK$'000	Restated HK$'000
Assets and liabilities					
Deferred taxation	(693,422)	–	(218,561)	218,561	(693,422)
Total effect on assets and liabilities	(693,422)	–	(218,561)	218,561	(693,422)
Equity					
Fair value reserves	(1,357,758)	1,357,758	–	–	–
Exchange reserves	(184,742)	(627)	–	–	(185,369)
Accumulated losses	816,244	(1,357,131)	111,466	(111,466)	(540,887)
Non-controlling interests	(1,805,638)	–	107,095	(107,095)	(1,805,638)
Total effect on equity	(2,531,894)	–	218,561	(218,561)	(2,531,894)

45. PRIOR YEAR ADJUSTMENTS (Continued)

Notes:

(a) The adjustment represents the increase in negative goodwill resulting from the recognition of fair value for the Iron Exploration Right and Molybdenum Exploration Right as at the date of business combination.

The net identifiable assets acquired for Rui Sui and the negative goodwill is summarised below:

	Previously stated HK$'000	**Adjustments** HK$'000	**Restated** HK$'000
Net identifiable assets acquired:			
Prepayments, deposits and other Receivables	7,152		7,152
Cash and bank balances	1,627		1,627
Exploration and evaluation assets	9,139	3,256,570*	3,265,709
Accruals and other payables	(917)		(917)
Deferred taxation	–	(814,142)#	(814,142)
	17,001		2,459,429
Non-controlling interests	(8,357)		(1,205,120)
	8,644		1,254,309
Total consideration satisfied by:			
Cash			(8,644)
Negative goodwill			1,245,665

* The adjustment represents the fair value of (i) the Iron Exploration Right of approximately HK$874,246,000; (ii) the Molybdenum Exploration Right of approximately HK$2,382,324,000 and the related deferred taxation expenses.

\# The adjustment represents the recognition of deferred tax liabilities of (i) approximately HK$218,561,000 for Iron Exploration Rights; and (ii) approximately HK$595,581,000 for Molybdenum Exploration Rights.

(b) As at 31 December 2008, the carrying value of the exploration and evaluation assets of approximately HK$888,579,000, as originally reported includes (i) the costs of approximately HK$9,139,000 arising from the acquisition of Rui Sui; (ii) recognition of fair value of Iron Exploration Right of approximately HK$874,246,000; and (iii) addition of approximately HK$5,194,000.

The adjustment represents the recognition for the fair value of the Molybdenum Exploration Right previously recognised as surplus in revaluation as at 31 December 2009 which should be recognised at the date of business combination.

(c) The adjustment represents the reversal of fair value reserves to reflect the recognition of fair value of the exploration and evaluation assets as at the date of business combination.

(d) The adjustment represents (i) the reversal of fair value reserves of approximately HK$1,357,131,000 to reflect the cumulative effect for the recognition of negative goodwill arising from the business combination of Rui Sui against the increase in fair value of the exploration and evaluation assets; and (ii) the related exchange adjustments of approximately HK$627,000.

45. PRIOR YEAR ADJUSTMENTS (Continued)

Notes: (Continued)

(e) The adjustment represents the cumulative effect for the increase in deferred taxation arising from recognition of deferred taxation for Iron Exploration Right as at the date of business combination.

(f) Subsequent to the year ended 31 December 2011, 26% equity interests in Rui Sui has been disposed of and the carrying value of which were accounted for as "Non-current assets classified as held for sales". The adjustment represents the reduction in the amounts of impairment loss on re-measurement of non-asset held for sales for the year ended 31 December 2011 of approximately HK$218,561,000 (being approximately HK$111,464,000 attributable to the owners of the Company and approximately HK$107,095,000 attributable to non-controlling interests) resulting from the recognition of deferred taxation of Iron Exploration Right as at the date of business combination.

The assets and liabilities of Rui Sui classified as non-current assets held for sales is summarised below:

	Previously stated HK$'000	Adjustments HK$'000	Restated HK$'000
Exploration and evaluation assets	3,343,587		3,343,587
Other payables and accruals	(64,619)		(64,619)
Deferred tax liabilities	(595,581)	(218,561)	(814,142)
	2,683,387		2,464,826
Less: impairment loss on re-measurement of assets held for sales	(375,695)	218,561	(157,134)
	2,307,692		2,307,692

SUMMARY OF FINANCIAL INFORMATION

RESULTS

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Turnover	369,702	391,035	384,543	85,498	74,400
(Loss)/Profit from operations	(1,046,833)	(859,459)	(928,901)	753,996	1,165,241
Finance costs	(12,071)	(11,722)	(1,157)	(324)	–
Share of results of associates	(134)	–	–	(652)	18,492
(Loss)/Profit before tax	(1,059,038)	(871,181)	(930,058)	753,020	1,183,733
Taxation	90,492	151,407	(135,544)	(195,580)	(862)
(Loss)/Profit for the year	(968,546)	(719,774)	(1,065,602)	557,440	1,182,871
Attributable to:					
Owners of the Company	(852,471)	(487,522)	(800,249)	670,228	1,191,329
Non-controlling interests	(116,075)	(232,252)	(265,353)	(112,788)	(8,458)
(Loss)/Profit for the year	(968,546)	(719,774)	(1,065,602)	557,440	1,182,871

ASSETS AND LIABILITIES

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Total Assets	4,926,155	6,129,099	7,651,822	7,399,975	4,168,497
Total Liabilities	(1,652,615)	(1,089,226)	(2,015,250)	(1,744,861)	(857,149)
	3,273,540	5,039,873	5,636,572	5,655,114	3,311,348
Equity attributable to:					
Owners of the Company	2,782,507	3,234,234	3,598,682	3,560,126	2,106,255
Non-controlling interests	491,033	1,805,639	2,037,890	2,094,988	1,205,093
	3,273,540	5,039,873	5,636,572	5,655,114	3,311,348