Solartech International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 1166

# ANNUAL REPORT 2011

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# CORPORATE INFORMATION

## Directors

### Executive Directors

CHAU Lai Him
*(Chairman and Managing Director)*
ZHOU Jin Hua
*(Deputy Chairman)*
LIU Dong Yang
BUYAN-OTGON Narmandakh

### Independent Non-Executive Directors

CHUNG Kam Kwong
LO Wai Ming
LO Chao Ming

## Company Secretary

CHAN Kam Yee

## Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## Head Office and Principal Place of Business

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

## Stock Code

1166

## Website

www.1166hk.com

## Auditors

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

## Legal Advisor

Herbert Smith
23/F, Gloucester Tower
15 Queen Road Central
Hong Kong

## Bermuda Principal Share Registrar and Transfer Office

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

## Hong Kong Branch Share Registrar and Transfer Office

Tricor Secretaries Limited
26/F Tesbury Centre
28 Queen Road East
Wanchai
Hong Kong

## Principal Banks (in alphabetical order)

Bank of China Limited
China CITIC Bank Corporation Limited
DBS Bank (Hong Kong) Limited

# CHAIRMAN'S STATEMENT

## Financial Results

The Board announces that for the year ended 30 June 2011 (the "**year under review**"), total turnover of Solartech International Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") was approximately HK$707,535,000, a decrease of 6.5% over turnover from continuing operations of approximately HK$756,444,000 for the corresponding period last year. During the year under review, the Company recorded a profit attributable to owners of the Company of approximately HK$358,224,000 which is attributable to the significant fair value gain of the derivative component of the convertible bond, as compared to the loss attributable to owners of the Company of approximately HK$138,660,000 for the corresponding period last year. Earnings per share for the year under review was approximately HK33.12 cents (2009/10: loss per share HK166.39 cents (restated)).

## Business Review

During the year under review, the Group deployed its resources on the businesses of manufacturing and trading of cables, wires and copper products, which are based in Mainland China. Moreover, for the mining business, the Group has been engaging technical advisors to formulate a mining proposal for the development of relevant businesses.

By business segments, the Group's turnover for the year under review was approximately HK$707,535,000. Turnover for the cables and wires business was approximately HK$316,551,000, representing a decrease of 18.9% over the corresponding period last year of approximately HK$390,374,000, and accounted for 44.7% of the Group's total turnover. Turnover for the copper rod business was approximately HK$390,984,000, representing an increase of 6.8% over the corresponding period last year of approximately HK$366,038,000, and accounted for 55.3% of the Group's total turnover.

By geographical segments, turnover from continuing operations of the business in America increased by 5.3% from approximately HK$91,806,000 for the corresponding period last year to approximately HK$96,637,000, accounting for 13.7% of the Group's total turnover. Turnover from continuing operations of the business in the Mainland China and Hong Kong decreased by 10.9% from approximately HK$610,475,000 for the corresponding period last year to approximately HK$543,645,000, accounting for 76.8% of the Group's total turnover. Turnover from continuing operations of business in other Asian markets increased by 26.6% from approximately HK$24,432,000 for the corresponding period last year to approximately HK$30,923,000, accounting for 4.4% of the Group's total turnover. Turnover from continuing operations of the European business increased by 22.2% from approximately HK$29,731,000 for the corresponding period last year to approximately HK$36,330,000, accounting for 5.1% of the Group's total turnover.

### Cables and Wires

The major customers of the Group's cables and wires business are primarily manufacturers of white domestic appliances. During the year under review, the Group's operational pressure was eased with the improvement in the economy and increase in domestic demands in China. Under the impact of, among others, rising costs of raw material yet decrease in selling prices of the Group's products, compounded with further intensified market competition, the Group endeavored to reduce costs while increasing efficiency, focus on technology integration and transformation, and enhance product quality to ensure a stable turnover from its cables and wires business during the year under review.

## Business Review (continued)

### Copper Rod Business

Copper rod business comprises the manufacturing and trading of copper rods and copper wires related products, which are primarily used in the production of power cords or cables for the power supply of household appliances, electronic products and infrastructure facilities. During the year under review, notwithstanding the continuous rising of copper prices in international markets, the Group has been adopting a more cautious operation model by utilizing the majority of the production capacity of its Dongguan copper rod business to provide processing services to its customers. As such, the Group was able to transfer its financing costs and the fluctuations in copper prices to its customers. Such move not only protected the Group from the material impact of soaring international copper prices, but also enabled the Group to achieve better utilization of its machinery and equipment, which in turn enhanced its production efficiency.

### Mining

The Group holds two exploration licences for an aggregate area of 3,111.33 hectares and one mining licence for an area of 350.98 hectares in Mongolia. During the year under review, the Group continued to engage in exploration activities in the areas covered by those two exploration licences so as to obtain in depth understanding of the mining area in terms of hydrogeology, geology and potential resources.

## Prospects

With global economy remains sluggish, the western countries still face various uncertainties. The implementation of the quantitative easing policies by US has resulted in a volatile financial market, thereby causing soaring prices of industrial materials and consumer goods and increasing wages, and evoking debt crisis among the members of the European Union. The overall economy of China has been affected by such difficulties in the western economy, compounded with labour shortage and increasing labour cost. At this stage, the Group will continue to focus on its PRC-based businesses of manufacturing and trading of cables and wire and copper products in order to minimize the negative effects brought about by the economic uncertainties in the relevant countries.

Notwithstanding the unstable global economy, there will be sustained demand worldwide for limited mineral resources in the long run. The tight supply of copper could well be evidenced by the copper stockpiles in both the London Metal Exchange and the New York Mercantile Exchange. The Group will further develop its operation in the mineral sector by, building on the foundation of its existing operations, continuing to identify and explore new mineral business opportunities so as to gain a niche in this industry. On 5 July 2011, the Group entered into an agreement with an independent third party, pursuant to which the Group agreed to acquire from the vendor 10% of the issued shares of a target company whose subsidiary holds an exploration license of a copper mine in Mongolia. To date, the acquisition has not yet been completed.

Looking forward, the Group will continue to take appropriate measures to overcome challenges caused by the negative factors such as the anticipated appreciation in the value of Renminbi, inflation and ever-rising raw materials and operating costs as well as the labor shortage in China.

## Final Dividend

The Directors resolved not to pay any final dividend for the year ended 30 June 2011.

## Annual General Meeting

The 2011 Annual General Meeting of the Company (the "**2011 Annual General Meeting**") will be held on Friday, 2 December 2011.

## Closure of Register of Members

For the purpose of determining the identity of the shareholders who are entitled to attend and vote at the 2011 Annual General Meeting, the register of members of the Company will be closed from Thursday, 1 December 2011 to Friday, 2 December 2011, both days inclusive, during which no transfer of shares of the Company will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on Wednesday, 30 November 2011.

## Employees and Remuneration Policies

As at 30 June 2011, the Group had approximately 1,300 employees in Hong Kong, the People's Republic of China ("**PRC**") and overseas (30 June 2010: 1,500). The Group's remuneration policy is reviewed periodically and determined by reference to market terms, company performance, and individual qualifications and performance. Staff benefits include medical schemes, Mandatory Provident Fund scheme for Hong Kong employees, and state-sponsored retirement plans for employees in the PRC.

## Liquidity and Financial Resources

During the year ended 30 June 2011, the Group implemented a prudent financial management policy. As at 30 June 2011, the Group had cash and bank balances (including pledged bank deposits) amounting to approximately HK$221 million (30 June 2010: HK$267 million) and net current assets value being over approximately HK$357 million (30 June 2010: HK$250 million). The Group's gearing ratio as at 30 June 2011 was 0.03 (30 June 2010: 0.18), being a ratio of total borrowings of approximately HK$61 million (30 June 2010: HK$167 million) to shareholders' funds of approximately HK$1,832 million (30 June 2010: HK$902 million).

As at 30 June 2011, the Group had pledged certain property, plant and machinery, land use rights and fixed bank deposits with an aggregate net book value of approximately HK$245 million (30 June 2010: HK$266 million) to secure general banking facilities granted to the Group.

As at 30 June 2011, the Company had issued guarantees to the extent of approximately HK$19.6 million (30 June 2010: HK$5.3 million) to banks to secure general banking facilities granted to its subsidiaries, of which, approximately HK$19.6 million (30 June 2010: HK$5.3 million) was utilised. In addition, the Company had issued guarantees to a financial institution amounting to approximately HK$23.3 million (30 June 2010: HK$23.3 million) in respect of commodity trading of copper by its subsidiary.

For the year ended 30 June 2011, the Group entered into copper forward contracts ("**derivative financial instruments**") to manage the copper price risks. The Group's overall financial risk management focuses on the unpredictability of the financial markets, controls the level of financial risks that the Group can bear, and minimises any potential adverse effects on the financial performance of the Group. The purpose of the Group's financial risk management is to ensure that transactions undertaken are in accordance with the Group's policies and not for speculative purposes. The outstanding derivative financial instruments have been revalued and stated at their fair value as at 30 June 2011 and the net gain of the derivative financial instruments for the year ended 30 June 2011 was approximately HK$21,802,000 (2009/10: net loss of HK$3,500,000).

## Change of Chinese Name

As referred to in the 2010 annual report of the Company, on 19 July 2010, the Board resolved upon and approved the adoption of a new Chinese name "蒙古礦業控股有限公司" by the Company, for identification purposes, to replace the Chinese name "榮盛科技國際控股有限公司" with effect from 3 August 2010.

## Capital Structure

### Full conversion of the Convertible Bond

On 4 May 2010, the Company issued a convertible Bond (the "**Convertible Bond**") in the principal amount of HK$1,432,000,000. During the period from 23 June 2010 to 9 September 2010 (the "**Conversion Period**"), the total principal amount of the Convertible Bond was converted into 14,320,000,000 new ordinary shares of HK$0.01 each of the Company, and the total issued share capital of the Company increased to approximately HK$180,256,000 as at the end of the Conversion Period. Upon full conversion of the Convertible Bond and subsequent sales of the conversion shares, no single shareholder of the Company would hold more than 30% of the issued share capital of the Company. Reference is made to the Next Day Disclosure Returns filed by the Company with The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the Conversion Period. Details of the Convertible Bond are set out in Note 32 to the financial statements.

### Placing of new shares under specific mandate

On 21 October 2010, the Company completed a placing of 7,200,000,000 new shares of the Company (the "**Placing Shares**") at a price of HK$0.02 per Placing Share (the "**Placing**"). The Placing Shares were issued pursuant to a specific mandate obtained at the special general meeting of the Company held on 18 October 2010 and the issued share capital of the Company was increased to HK$252,256,000 upon completion of the Placing. The net proceeds from the Placing amounted to approximately HK$140 million of which (i) approximately HK$75 million is intended to be used as initial set-up costs for Phase 1 of the establishment of a copper processing plant at the first zone of a copper-gold-silver mine located in Nergui of Delgerkhangai soum in Dundgobi aimag, Mongolia (details of which are set out in the circular of the Company dated 9 April 2010), (ii) approximately HK$13 million is intended to be used for repayment of short term loans of the Group and (iii) approximately HK$52 million is intended to be used for general working capital of the Group. The Placing was completed on 21 October 2010. Details of the Placing are set out in the announcement and circular of the Company dated 16 September 2010 and 29 September 2010 respectively.

### Capital Reorganisation

On 19 April 2011, the Board announced that the Company proposed to implement a reorganisation of the share capital of the Company (the "**Capital Reorganisation**") which involved (a) a consolidation of every twenty issued Shares of HK$0.01 each into one consolidated share of HK$0.20 each (the "**Consolidated Share**"); and (b) a reduction in the nominal value of the issued Consolidated Shares from HK$0.20 to HK$0.01 each by cancelling the paid-up capital to the extent of HK$0.19 on each of the issued Consolidated Share.

The Board believed that the Capital Reorganisation was beneficial to the Company and the shareholders as a whole. The Board was of the opinion that the Capital Reorganisation would provide the Company with greater flexibility for the issue of new shares in the future and the credit in the contributed surplus account arising as a result of the Capital Reorganisation would enable the Company to apply part of the amount standing to the credit of its contributed surplus account to eliminate the accumulated losses of the Company and this would facilitate the payment of dividends as and when the Directors consider it appropriate in the future.

The Capital Reorganisation was approved by the shareholders of the Company at the special general meeting of the Company held on 1 June 2011 and became effective on 2 June 2011. Details of the Capital Reorganisation were set out in announcements of the Company dated 19 April 2011 and the shareholders' circular issued by the Company on 9 May 2011. Details of the Capital Reorganisation are set out in Note 33 to the financial statements.

## Significant Events

### Possible Material Acquisition

On 5 January 2011, the Company and Mr. Uuld Vojin Gantumur (the "**Proposed Vendor**") entered into a memorandum of understanding (the "**MOU**") pursuant to which the Company proposed to acquire from the Proposed Vendor the entire issued share capital of Vangyunshing LLC (the "**Target Company**"), at a price and on further terms and conditions to be agreed. The Target Company is incorporated in Mongolia and is the registered holder of a mining licence and two exploration licences in respect of certain rare earth mining sites located in Mongolia. Under the MOU, the Proposed Vendor has granted the Company the exclusive right to negotiate with the Proposed Vendor with a view to agreeing and executing a definitive agreement in relation to the acquisition of the Target Company for a period of four months from the date of the MOU. The exclusive right was expired on 4 May 2011.

### Discloseable Transaction

On 5 July 2011, the Company and Expert Assets Management Limited ("**Expert Assets**"), an indirect wholly-owned subsidiary of the Company), entered into a sale and purchase agreement (the "**Agreement**") with Hero Wisdom Limited (the "**Vendor**") and Mr. Batmunkh Dulamjav (the "**Guarantor**") pursuant to which Expert Assets has conditionally agreed to acquire from the Vendor ten issued Shares (the "**Sale Shares**") of Venture Max Limited ( "**Venture Max**") (the "**Acquisition**"), representing 10% of the issued share capital of Venture Max upon completion of the Acquisition. Venture Max is a company incorporated in the British Virgin Islands and directly wholly-owned by the Vendor. Venture Max holds the entire equity interest in Mongolian Copper Mining LLC ("**MCM**") which is a company incorporated in Mongolia with limited liability and the holder of the Minerals Exploration Special Licence 5481X. The consideration for the Sale Shares payable under the Agreement is HK$100,000,000 and shall be satisfied by Expert Assets by (i) payment of HK$50,000,000 in cash as a deposit upon signing of the Agreement; and (ii) payment of the balance of HK$50,000,000 in cash at completion of the Acquisition. The Vendor is directly wholly-owned by the Guarantor. The Vendor and the Guarantor are third parties independent of the Company and its connected persons.

The Company has been seeking suitable opportunities to facilitate its ongoing expansion into the mining business and the Directors believe the Acquisition represents such an opportunity. The completion of the Acquisition is conditional on the conditions in the Agreement being satisfied or waived on or before 10 March 2012. Details of the Agreement and the Acquisition, which constitutes a discloseable transaction under the Listing Rules, were set out in the announcement of the Company dated 5 July 2011.

### Conditional Placing of New Shares under Specific Mandate

On 13 July 2011, the Company and Kingston, as placing agent, entered into a conditional placing agreement pursuant to which the Company conditionally agreed to place through the placing agent, on a best effort basis, up to 504,510,000 new shares of the Company to independent investors at a price of HK$0.20 per placing share (the "**Conditional Placing**"). The maximum gross proceeds and net proceeds from the Conditional Placing would be approximately HK$100.9 million and HK$98 million, respectively. The Company intends to utilise approximately HK$50 million of the net proceeds as part of the consideration for the Acquisition and the balance of the net proceeds from the Conditional Placing will be used for the general working capital of the Group. The maximum number of 504,510,000 placing shares to be placed under the conditional placing agreement would be issued pursuant to a specific mandate which was obtained at the special general meeting of the Company held on 15 August 2011. The Placing has not been completed as at the date of this report. Details of the Conditional Placing were set out in the announcement of the Company dated 13 July 2011 and the shareholders' circular issued by the Company on 28 July 2011.

## Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the listed securities of the Company during the year ended 30 June 2011.

## Compliance with the Code on Corporate Governance Practices

During the year under review, the Company complied with the code provisions set out in the Code on Corporate Governance Practices (the "**Code**") in Appendix 14 to the Listing Rules, save and except for the deviations from code provisions A.2.1 and A.4.1 of the Code which are explained below.

### Code provision A.2.1

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

During the year under review, Mr. Chau Lai Him acted as the Chairman and the Managing Director of the Company. Mr. Chau is the founder of the Group and has extensive experience in the cable and wire industry and the mining industry. Mr. Chau is responsible for effective running of the Board and for formulating business strategies. The Directors believe that it is in the best interests of the Group to have Mr. Chau continue to be both the Chairman and the Managing Director of the Company and that the current management structure has been effective in the development of the Group and implementation of business strategies under the leadership of Mr. Chau.

The Directors will continue to review the effectiveness of the Group's corporate governance structure to assess whether changes, including the separation of the roles of the chairman and the chief executive officer, are necessary.

### Code provision A.4.1

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

The existing independent non-executive directors of the Company were not appointed for a specific term as required under code provision A.4.1 of the Code but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company. As such, the Company considers that sufficient measures are in place to ensure that the non-executive directors of the Company are subject to appropriate mechanisms to avoid holding office indefinitely.

## Audit Committee

The Audit Committee comprises Mr. Chung Kam Kwong, Mr. Lo Wai Ming and Mr. Lo Chao Ming, all of whom are independent non-executive directors of the Company. The Audit Committee has adopted terms of reference which are in line with the code provisions of the Code. The Audit Committee has reviewed the audited results for the year ended 30 June 2011 and they agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Group's internal control procedure and financial reporting disclosures.

## Remuneration Committee

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

## Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the code of conduct regarding Directors' securities transactions. Having made specific enquiries with all of the Directors, each of the Directors confirmed that he had complied with the required standards set out in the Model Code throughout the year ended 30 June 2011.

## Appreciation

On behalf of the Board, I would like to extend my sincere gratitude to our business partners, shareholders, staff and management for their continuous dedication, commitment and support in the past year.

On behalf of the Board

**Chau Lai Him**
*Chairman*

26 September 2011

# DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

*Mr. CHAU Lai Him*, aged 60, is the chairman and managing director of the Group and the founder of the Group. Mr. Chau has been appointed as an executive director of the Company since November 1996. He is responsible for the overall management, strategic planning and business development of the Group. He has more than 30 years' experience in the cable and wire industry and extensive experience in the mining industry.

*Mr. ZHOU Jin Hua*, aged 53, joined the Group in 1986 and is the deputy chairman of the Company and the general manager of the Group's Dongguan manufacturing facilities. Mr. Zhou has been appointed as an executive director of the Company since November 1996. He is responsible for the day-to-day operations of the Group's Dongguan manufacturing facilities including production, sales and marketing and business development. He has more than 25 years' experience in the manufacturing of cable and wire products.

*Mr. LIU Dong Yang*, aged 37, joined the Group in September 1995 and has been appointed as an executive director since January 2010. Mr. Liu is the deputy general manager of Shanghai Chau's Electrical Company Limited and is responsible for the financial matters for the trading and manufacturing operations in Shanghai. He holds a professional diploma in international finance from Hunan Finance and Economics College, a bachelor degree in business administration from the Renmin University of China. He is a member of the Chinese Institute of Certified Public Accountants. He has more than 15 years' experience in finance and accounting.

*Mr. BUYAN-OTGON Narmandakh*, aged 36, has been appointed as an executive director of the Company since July 2010 and has focused on resources and investments and finance in Mongolia. He holds a diploma in economics and accounting from the Mongolian State University of Agriculture, a graduate diploma in public administration from the Government of Mongolia Academy of Management and a degree of M.B.A. in accounting from the National University of Mongolia. He has extensive experience in banking and finance in Mongolia.

## Independent Non-executive Directors

*Mr. CHUNG Kam Kwong*, aged 54, has been appointed as an independent non-executive director of the Company since March 2003. Mr. Chung is a practising Certified Public Accountant in Hong Kong, a fellow certified public accountant of the Hong Kong Institute of Certified Public Accountants, a member of CPA Australia and a supervisory council member of the Macau Society of Certified Practising Accountants. He holds a bachelor degree in economics from the University of Hull, United Kingdom and a post graduate diploma of financial management from the University of New England, Australia. Mr. Chung has extensive experience in accounting and financial management and is independent non-executive director of Truly International Holdings Limited (stock code: 732) which is listed on the main board of the Stock Exchange.

*Mr. LO Wai Ming, Paulus*, aged 59, has been appointed as an independent non-executive director of the Company since January 2000. Mr. Lo is the president of Greater China Asset Management Limited. He is also the director and general manager of SW China Strategic Holdings Limited. He has over 30 years' extensive experience in capital investment, consumer marketing, infrastructure investment and management, business development and corporate finance. He holds a bachelor degree in Social Sciences (Hons) and a master degree in business administration from the Chinese University of Hong Kong. He is a member of the Chartered Institute of Marketing and the Chartered Management Institute of the United Kingdom.

*Mr. LO Chao Ming*, aged 46, has been appointed as an independent non-executive director of the Company since November 2006. He is the general manger of Sunf Pu Electric Wire & Cable Co., Ltd., a company incorporated in Taiwan, Republic of China. He has more than 20 years' experience in the cable and wire industry.

## Company Secretary

*Ms. CHAN Kam Yee, Shirley*, aged 50, has been appointed as the company secretary of the Company since November 2007. She has more than 20 years' experience in finance and accounting and more than 15 years' experience in company secretarial affairs. She is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

## Senior Management

*Mr. Silvio POLLO*, aged 60, joined the Group in May 2007 as the International Business Development Director. He is responsible for the overall management, strategic planning and business development in Europe and USA. He holds a master degree in Industrial Engineering from the Politecnico di Torino (Italy). Mr. Pollo has extensive experience in the electrical and manufacturing industry with wide exposure in international business development.

*Ms. LAM Sui Lan, Miranda*, aged 42, rejoined the Group in March 2004 and is the assistant to managing director of Chau's Electrical Co., Ltd. She holds a bachelor's degree of arts, major in business administration from the University of Northumbria at Newcastle, the United Kingdom and a higher diploma in business studies from the City University of Hong Kong. She has more than 15 years' experience in sales and marketing in the field of cable and wire products.

*Mr. CHAU Chi Ho*, aged 30, rejoined the Group in August 2010 and is the assistant finance manager of Chau's Electrical Company Limited and is responsible for accounting and financial management. He holds a bachelor's degree in Business Administration from the California State Polytechnic University Pomona, United States and has extensive experience in auditing, finance and accounting experience. He is the son of Mr. Chau Lai Him.

*Mr. ZHOU Qi Qin*, aged 47, joined the Group in November 1988 and is the operations manager of Dongguan Qiaozi Chau's Electrical Co., Ltd. He is responsible for the production operations of the Dongguan Qiaozi manufacturing facilities. He has more than 20 years' experience in manufacturing management.

*Mr. KANG Jian*, aged 42, joined the Group in December 2003 and is the general manager of Shanghai Chau's Electrical Co., Ltd. He is responsible for the day-to-day operations of the Shanghai manufacturing facilities including production, sales and marketing and business development. He holds a profession diploma in Accountancy and Management from Shanghai Light Industry College. He has more than 10 years' experience in management.

*Mr. YUAN Hai Xiang*, aged 44, joined the Group in March 1985 and is the operations manager of Dongguan Hua Yi Brass Products Company Limited ("Dongguan Hua Yi"). He is responsible for materials control, production planning, purchasing, warehouse management and customer services of the Dongguan Hua Yi manufacturing facilities. He has more than 20 years' experience in operations management.

*Mr. SO Kang Ming*, aged 57, joined the Group in February 2005 and is the assistant operations manager of Hua Yi Copper Products Company Limited ("Hua Yi"). He is responsible for purchasing, inventory control and logistics operations of Hua Yi. He has about 20 years experience in merchandising and logistics operations.

# DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 30 June 2011 (the "Financial Statements").

## Principal Activities

The Company is an investment holding company. The activities of its principal subsidiaries and associate are set out in notes 18 and 19, to the Financial Statements, respectively.

## Results

The results of the Group for the year ended 30 June 2011 are set out in the consolidated statement of comprehensive income on pages 24 and 25 of this report.

The Directors do not recommend the payment of a final dividend for the year ended 30 June 2011.

## Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at 30 June 2011 are set out in note 29 to the Financial Statements.

## Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 96.

## Property, Plant and Equipment

Details of additions and other movements during the year in the property, plant and equipment of the Group are set out in note 15 to the Financial Statements.

## Share Capital

Details of changes in the share capital of the Company during the year are set out in note 33 to the Financial Statements.

## Reserves

The Company's distributable reserve at 30 June 2011 was nil (30 June 2010: Nil). Details of movements in the reserves of the Group during the year ended 30 June 2011 are set out in the consolidated statement of changes in equity on pages 29 and 30 of this report.

## Connected Transactions

Significant related party transactions which do not constitute connected transactions under the Listing Rules, entered into by the Group during the year ended 30 June 2011 are disclosed in note 42 to the Financial Statements. Other than disclosed therein, there was no other connected transaction of the Company and the Group during the year ended 30 June 2011.

## Contingent Liabilities

During the year, certain subsidiaries of the Company and other unrelated parties are named as joint defendants brought by a number of plaintiffs in the lawsuits which are set out in note 43 to the Financial Statements.

## Directors and Directors' Service Contracts

The Directors of the Company during the period and up to the date of this report were:

### Executive Directors:

Mr. Chau Lai Him *(Chairman and Managing Director)*
Mr. Zhou Jin Hua
Mr. Liu Dong Yang
Mr. Buyan-Otgon Narmandakh *(appointed on 26 July 2010)*

### Independent non-executive Directors:

Mr. Chung Kam Kwong
Mr. Lo Wai Ming
Mr. Lo Chao Ming

Messrs. Chau Lai Him, Zhou Jin Hua and Chung Kam Kwong will retire by rotation from office as Directors at the forthcoming annual general meeting and Messrs. Chau Lai Him, Zhou Jin Hua and Chung Kam Kwong, being eligible, will offer themselves for re-election pursuant to Bye-laws 86(2) and 87 of the Bye-laws of the Company.

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

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

## Profiles of Directors and Senior Executives

Profiles of Directors and senior executives of the Group are set out on pages 10 to 11 to this report.

## Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company

As at 30 June 2011, none of the Directors and the chief executives of the Company had any interests and short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## Substantial Shareholders' and Other Persons' Interests in the Shares and Underlying Shares of the Company

So far as is known to any of the Directors and chief executives of the Company, as at 30 June 2011, persons other than a Director or a chief executive of the Company who had an interest or short position in the shares or underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO, were as follows:

### Long positions in the shares and underlying shares of the Company

| Name of shareholder | Capacity and nature of interest | Number of shares interested | Percentage of the Company's issued share capital |
|---|---|---|---|
| Top Esteem Holdings Limited | Beneficial owner | 126,000,000 | 9.99% |
| Mr. Soyol Samdan *(Note)* | Interests through controlled corporation | 126,000,000 | 9.99% |

*Note:* Top Esteem Holdings Limited is wholly owned by Mr. Soyol Samdan who is deemed to have the same long position as Top Esteem Holdings Limited under the SFO. Mr. Soyol Samdan is an independent third party.

### Other persons having interests or short positions in the shares and underlying shares of the Group

| Name of the Company's subsidiary | Substantial shareholder of the subsidiary | Capacity and nature of interest | Amount of fully paid registered capital of the subsidiary interested | Percentage of the subsidiary's registered capital |
|---|---|---|---|---|
| 東莞新寶精化有限公司 Dongguan Xin Bao Precision Chemical Co., Ltd. | Luckyman Assets Management Limited | Beneficial owner | HK$6,750,000 | 14.24% |

Save as disclosed above, so far as is known to any of the Directors and chief executives of the Company, as at 30 June 2011, no other person or corporation other than a Director or a chief executive of the Company had any interests or short positions in any shares or underlying shares of the Company which was recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## Share Options

On 16 September 2002, the Company adopted a new share option scheme (the "New Share Option Scheme") which replaced the Company's old share option scheme adopted in 1996.

During the year ended 30 June 2011, the Company did not grant any share option under the New Share Option Scheme.

As at 30 June 2011, the Company had no share options outstanding under the New Share Option Scheme.

## Arrangement to Purchase Shares or Debentures

Save as disclosed in the sections headed "Directors' Interests in Shares and Underlying Shares of the Company" and in the section headed "Share Options" of this report, at no time during the year ended 30 June 2011 were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them, or was the Company or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors or their respective spouses or minor children to acquire such rights in any other body corporate.

## Directors' Interests in Contracts of Significance

No contract of significance to which the Company or any of its subsidiaries or associates was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 30 June 2011 or at any time during the year.

## Major Customers and Suppliers

For the year ended 30 June 2011, the five largest customers of the Group together accounted for approximately 47.7% of the Group's total turnover and the five largest suppliers of the Group together accounted for approximately 81.0% of the Group's total purchases, with the largest customer accounted for approximately 12.5% of the Group's total turnover and the largest supplier accounted for approximately 39.6% of the Group's total purchases during the year.

At no time during the year ended 30 June 2011 did any of the Directors, their respective associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or five largest suppliers.

## Emolument Policy

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

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

The Company has adopted the New Share Option Scheme as an incentive to the Directors and eligible employees of the Company, details of the scheme are set out in note 40 to the Financial Statements.

## Retirement Scheme

Particulars of the Group's retirement scheme are set out in note 41 to the Financial Statements.

## Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's securities during the year ended 30 June 2011.

## Pre-emptive Rights

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

## Corporate Governance

The Company has complied throughout the year ended 30 June 2011 with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules, except for the deviations from code provisions A.2.1 and A.4.1 of the Code which are explained below.

### Code provision A.2.1

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

During the year ended 30 June 2011, Mr. Chau Lai Him acted as the Chairman and the Managing Director of the Company. Mr. Chau is the founder of the Group and has extensive experience in the cable and wire industry and the mining industry. Mr. Chau is responsible for effective running of the Board and for formulating business strategies. The Directors believe that it is in the best interests of the Group to have Mr. Chau continue to be both the Chairman and the Managing Director of the Company and that the current management structure has been effective in the development of the Group and implementation of business strategies under the leadership of Mr. Chau.

The Directors will continue to review the effectiveness of the Group's corporate governance structure to assess whether changes, including the separation of the roles of the chairman and the chief executive officer, are necessary.

### Code provision A.4.1

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

The existing independent non-executive Directors were not appointed for a specific term as required under code provision A.4.1 of the Code. However, Directors of the Company, including independent non-executive Directors, are subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company. As such, the Company considers that sufficient measures are in place to ensure that the non-executive Directors are subject to appropriate mechanisms to avoid holding office indefinitely.

The Company has adopted the Model Code for Securities Transactions by Directors set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding Directors' securities transactions. Having made specific enquiries with all the Directors, each of the Directors confirmed he has complied with the required standards set out in the Model Code throughout the year ended 30 June 2011.

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

## Audit Committee

The Company's Audit Committee comprises the three independent non-executive Directors.

The principal duties of the Audit Committee are reviewing the internal controls and the financial reporting requirements of the Group. The Audit Committee is satisfied with the Group's internal control procedures and the financial reporting disclosures.

During the year, the Audit Committee met with the external auditors twice to understand and evaluate the financial risk associated to the Group and review the effectiveness of the Group's internal control. The Audit Committee has reviewed with management and the external auditor the accounting principles and policies adopted by the Group and the Financial Statements.

## Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Directors are satisfied that the Company has maintained the prescribed minimum public float under the Listing Rules.

## Events After Reporting Period

Details of significant events occurring after the end of reporting period date are set out in note 46 to the Financial Statements.

## Auditors

A resolution will be submitted to the annual general meeting to re-appoint Messrs. BDO Limited as auditors of the Company.

On behalf of the Board

**Chau Lai Him**
*Chairman*

26 September 2011

## Corporate Governance Principles

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

## Compliance of the Code Provisions

Throughout the financial year ended 30 June 2011 (the "Financial Year"), the Company complied with the Code except for the deviations from code provisions A.2.1 and A.4.1 of the Code which are explained below.

## Code provision A.2.1

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

During the Financial Year, Mr. Chau Lai Him acted as the Chairman and the Managing Director of the Company. Mr. Chau is the founder of the Group and has extensive experience in the cable and wire industry and the mining industry. Mr. Chau is responsible for effective running of the Board and for formulating business strategies. The Directors believe that it is in the best interests of the Group to have Mr. Chau continue to be both the Chairman and the Managing Director of the Company and that the current management structure has been effective in the development of the Group and implementation of business strategies under the leadership of Mr. Chau.

The Directors will continue to review the effectiveness of the Group's corporate governance structure to assess whether changes, including the separation of the roles of the chairman and the chief executive officer, are necessary.

## Code provision A.4.1

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

The existing Independent Non-executive Directors of the Company were not appointed for a specific term as required under code provision A.4.1 of the Code. However, Directors of the Company, including Independent Non-executive Directors, are subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company. As such, the Company considers that sufficient measures are in place to ensure that the non-executive Directors are subject to appropriate mechanisms to avoid holding office indefinitely.

## Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by Directors. The Company has made specific enquiries with all of the Directors, each of whom has confirmed that he has throughout the Financial Year complied with the required standards set out therein.

## Board of Directors

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

The Board currently comprises a total of seven Directors, with four Executive Directors, Messrs. Chau Lai Him (Chairman and Managing Director), Zhou Jin Hua (Deputy Chairman), Liu Dong Yang and Buyan-Otgon Narmandakh and three Independent Non-executive Directors, Messrs. Chung Kam Kwong, Lo Wai Ming and Lo Chao Ming. Save as disclosed herein, there is no relationship among members of the Board. More details of the Directors are disclosed on pages 10 and 11 of this report.

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

The roles of Chairman and Managing Director are not separate, and the explanation in connection with such deviation from Code provision A.2.1 is set out in the paragraph headed "Compliance with the Code Provisions" of this report. The Chairman has ensured that all Directors are properly briefed on issues arising at Board meetings and all Directors receive adequate, complete and reliable information.

During the Financial Year, the Board at all times complied with Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors; one of whom is required to possess appropriate professional qualifications or accounting or related financial management expertise. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

## Board Operation

During the Financial Year, the Board held 10 meetings and the attendance record of each member of the Board is set out below:

| | **Attendance/ eligible to attend** |
|---|---|
| **Executive Directors** | |
| Chau Lai Him, *Chairman and Managing Director* | 10/10 |
| Zhou Jin Hua, *Deputy Chairman* | 10/10 |
| Liu Dong Yang | 10/10 |
| BUYAN-OTGON Narmandakh (appointed on 26 July 2010) | 7/7 |
| **Independent Non-executive Directors** | |
| Chung Kam Kwong | 10/10 |
| Lo Wai Ming | 10/10 |
| Lo Chao Ming | 10/10 |

## Remuneration of Directors

The Remuneration Committee of the Company currently comprises three Independent Non-executive Directors, Messrs. Chung Kam Kwong, Lo Wai Ming and Lo Chao Ming and the chairman of the Remuneration Committee is Mr. Chung Kam Kwong. The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, and the making of recommendations to the Board in connection with the remuneration of the Non-executive Directors. The Remuneration Committee should consider factors such as the salaries paid by comparable companies, employment conditions elsewhere in the Group and the desirability of performance-based remuneration. The Remuneration Committee shall meet at least once a year.

During the Financial Year, the Remuneration Committee held one meeting and all committee members were present at the meeting. The Remuneration Committee has reviewed the remuneration packages of all Executive Directors and senior management, and made recommendations to the Board in connection with the remuneration of the Non-executive Directors. Details of the emoluments of the Directors are set out in note 9 to the Financial Statements.

## Nomination of Directors

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

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

During the Financial Year, the Board reviewed the structure, size and composition of the Board and recommended the appointment of Mr. Buyan-Otgon Narmandakh as Executive Director. At the 2010 annual general meeting of the Company, Mr. Buyan-Otgon was re-elected as Executive Director by the shareholders of the Company .

## Auditors' Remuneration

During the Financial Year, the remuneration paid and payable to the auditors of the Group, BDO Limited, for the provision of the Group's audit services and non-audit related services was HK$860,000 and HK$188,000 respectively.

## Audit Committee

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

During the Financial Year, the Audit Committee held three meetings and all committee members were present at the meetings. The Audit Committee has reviewed with the management, the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the Company's interim and annual financial statements before submission to the Board. The Group's financial statements for the Financial Year have been reviewed by the Audit Committee, which is of the opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosures have been made.

## System of Internal Controls

The Board ensures the maintenance of sound and effective internal controls to safeguard the Shareholders investment and the assets of the Company. It has been an important duty of the Directors to conduct a review of the effectiveness of the system of internal controls of the Group annually or at anytime necessary. The review covers all material controls, including financial, operational and compliance controls, and risk management functions, and takes into account the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The Board has reached the conclusion that the Group's internal control system was in place and effective.

## General

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

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

On behalf of the Board

**Chau Lai Him**
*Chairman*

26 September 2011

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**TO THE SHAREHOLDERS OF**
**SOLARTECH INTERNATIONAL HOLDINGS LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Solartech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 95, which comprise the consolidated and company statements of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

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

## Auditors' Responsibility

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

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

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

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2011, and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**BDO Limited**
*Certified Public Accountants*

**Lam Siu Fung**
Practising Certificate number: P05308

Hong Kong, 26 September 2011

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

| | | Continuing operations | | Discontinued operation | | Total | |
|---|---|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | *NOTES* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Turnover | *6 & 7* | **707,535** | 756,444 | **–** | 647,836 | **707,535** | 1,404,280 |
| Cost of sales | | **(676,582)** | (716,830) | **–** | (492,764) | **(676,582)** | (1,209,594) |
| Gross profit | | **30,953** | 39,614 | **–** | 155,072 | **30,953** | 194,686 |
| Interest income | | **2,469** | 664 | **–** | 2,353 | **2,469** | 3,017 |
| Other income | | **19,956** | 3,599 | **–** | 2,656 | **19,956** | 6,255 |
| General and administrative expenses | | **(103,129)** | (100,101) | **–** | (67,176) | **(103,129)** | (167,277) |
| Selling and distribution expenses | | **(13,328)** | (12,628) | **–** | (8,814) | **(13,328)** | (21,442) |
| Change in fair value of derivative financial instruments | *23* | **21,802** | (3,500) | **–** | – | **21,802** | (3,500) |
| Change in fair value of convertible bond | *32* | **462,158** | 141,344 | **–** | – | **462,158** | 141,344 |
| Impairment loss recognised for doubtful debts, net | *21(iii)* | **(352)** | (1,843) | **–** | (250) | **(352)** | (2,093) |
| Impairment loss on property, plant and equipment | *15* | **(46,731)** | – | **–** | (26,430) | **(46,731)** | (26,430) |
| Finance costs | *10* | **(20,496)** | (30,677) | **–** | (817) | **(20,496)** | (31,494) |
| Share of results of an associate | *19* | **(1,895)** | (2,230) | **–** | – | **(1,895)** | (2,230) |
| Gain/(loss) on disposal of subsidiaries | *36* | **5,295** | – | **–** | (197,141) | **5,295** | (197,141) |
| Profit/(loss) before taxation | *8* | **356,702** | 34,242 | **–** | (140,547) | **356,702** | (106,305) |
| Taxation | *11* | **1,522** | 2,211 | **–** | (34,566) | **1,522** | (32,355) |
| Profit/(loss) for the year attributable to owners of the Company | *12* | **358,224** | 36,453 | **–** | (175,113) | **358,224** | (138,660) |
| Other comprehensive income: | | | | | | | |
| Exchange differences on translating foreign operations | | **370** | 20,766 | **–** | – | **370** | 20,766 |
| Reclassification adjustments of exchange reserve upon disposal of subsidiaries | *36* | **(4,683)** | – | **–** | (16,673) | **(4,683)** | (16,673) |
| Other comprehensive income for the year | | **(4,313)** | 20,766 | **–** | (16,673) | **(4,313)** | 4,093 |
| Total comprehensive income for the year attributable to owners of the Company | | **353,911** | 57,219 | **–** | (191,786) | **353,911** | (134,567) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

| | | Continuing operations | | Discontinued operation | | Total | |
|---|---|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | *NOTE* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Earnings/(loss) per share: | *14* | | | | | | (Restated) |
| from continuing and discontinued operations | | | | | | | |
| – Basic (HK cents) | | | | | | **33.12** | (166.39) |
| – Diluted (HK cents) | | | | | | **(8.17)** | (166.39) |
| from continuing operations | | | | | | | |
| – Basic (HK cents) | | | | | | **33.12** | 43.74 |
| – Diluted (HK cents) | | | | | | **(8.17)** | (109.00) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **230,971** | 294,277 |
| Prepaid lease payments for land | 16 | **94,048** | 96,573 |
| Intangible asset | 17 | **1,164,515** | 1,163,828 |
| Interest in an associate | 19 | **7,666** | 9,185 |
| Convertible bond | 32 | **–** | 141,081 |
| Total non-current assets | | **1,497,200** | 1,704,944 |
| **Current assets** | | | |
| Inventories | 20 | **112,513** | 112,449 |
| Debtors, other loans and receivables, deposits and prepayments | 21 | **218,387** | 216,558 |
| Bills receivable | 22 | **2,539** | 18,662 |
| Prepaid lease payments for land | 16 | **2,659** | 2,631 |
| Derivative financial assets | 23 | **806** | – |
| Tax recoverable | | **721** | 872 |
| Pledged deposits and bank balances | 24, 25 | **39,713** | 49,988 |
| Bank balances and cash | 25 | **181,369** | 217,244 |
| Total current assets | | **558,707** | 618,404 |
| **Current liabilities** | | | |
| Creditors, other advances and accrued charges | 26 | **45,258** | 63,258 |
| Bills payable | 27 | **95,876** | 120,128 |
| Taxation | | **54** | 347 |
| Obligations under finance leases | 28 | **471** | 665 |
| Borrowings | 29 | **59,831** | 165,338 |
| Derivative financial liabilities | 23 | **–** | 11,766 |
| Deferred consideration payable | 30 | **–** | 6,825 |
| Total current liabilities | | **201,490** | 368,327 |
| **Net current assets** | | **357,217** | 250,077 |
| **Total assets less current liabilities** | | **1,854,417** | 1,955,021 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Convertible bond | 32 | – | 1,028,621 |
| Obligations under finance leases | 28 | **284** | 755 |
| Deferred tax liabilities | 31 | **22,273** | 23,573 |
| Total non-current liabilities | | **22,557** | 1,052,949 |
| **Total net assets** | | **1,831,860** | 902,072 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 33 | **12,613** | 47,056 |
| Reserves | | **1,818,747** | 854,516 |
| **Equity attributable to owners of the Company** | | **1,831,360** | 901,572 |
| **Non-controlling interest** | | **500** | 500 |
| **Total equity** | | **1,831,860** | 902,072 |

The consolidated financial statements on pages 24 to 95 were approved and authorised for issue by the Board of Directors on 26 September 2011 and are signed on its behalf by:

**Chau Lai Him**
*Director*

**Zhou Jin Hua**
*Director*

# STATEMENT OF FINANCIAL POSITION

At 30 June 2011

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | 18 | **1,335,346** | 1,586,458 |
| Convertible bond | 32 | **–** | 141,081 |
| Total non-current assets | | **1,335,346** | 1,727,539 |
| **Current assets** | | | |
| Deposits and prepayments | | **717** | 263 |
| Bank balances and cash | 25 | **95,793** | 119,159 |
| Total current assets | | **96,510** | 119,422 |
| **Current liabilities** | | | |
| Other advances and accrued charges | | **455** | 898 |
| Amounts due to subsidiaries | 18 | **60,557** | 60,557 |
| Total current liabilities | | **61,012** | 61,455 |
| **Net current assets** | | **35,498** | 57,967 |
| **Total assets less current liabilities** | | **1,370,844** | 1,785,506 |
| **Non-current liability** | | | |
| Convertible bond | 32 | **–** | 1,028,621 |
| **Total net assets** | | **1,370,844** | 756,885 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 33 | **12,613** | 47,056 |
| Reserves | 34 | **1,358,231** | 709,829 |
| **Total equity** | | **1,370,844** | 756,885 |

**Chau Lai Him**
*Director*

**Zhou Jin Hua**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

| | Share capital *HK$'000* | Share premium *HK$'000* | Contributed surplus *HK$'000* | Exchange reserve *HK$'000* | Statutory reserve fund *HK$'000* | Share option reserve *HK$'000* | Accumulated losses *HK$'000* | Total *HK$'000* | Non-controlling interest *HK$'000* | Total equity *HK$'000* |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 July 2009 | 31,685 | 274,304 | 587,012 | 3,794 | 5,652 | 667 | (277,614) | 625,500 | 500 | 626,000 |
| Placements of new shares *(Note 33)* | 29,407 | 296,037 | – | – | – | – | – | 325,444 | – | 325,444 |
| Issue of shares upon partial conversion of convertible bond *(Note 33)* | 10,000 | 59,335 | – | – | – | – | – | 69,335 | – | 69,335 |
| Issue of shares upon exercise of share options *(Note 33)* | 1,312 | 10,552 | – | – | – | – | – | 11,864 | – | 11,864 |
| Recognition of equity-settled share-based payments *(Note 40)* | – | – | – | – | – | 3,996 | – | 3,996 | – | 3,996 |
| Transactions with owners | 40,719 | 365,924 | – | – | – | 3,996 | – | 410,639 | – | 410,639 |
| Loss for the year | – | – | – | – | – | – | (138,660) | (138,660) | – | (138,660) |
| Other comprehensive income | – | – | – | 4,093 | – | – | – | 4,093 | – | 4,093 |
| Total comprehensive income for the year | – | – | – | 4,093 | – | – | (138,660) | (134,567) | – | (134,567) |
| Capital reorganisation *(Note 33)* | (25,348) | – | 25,348 | – | – | – | – | – | – | – |
| Transfer upon exercise of share options *(Note 33)* | – | 3,996 | – | – | – | (3,996) | – | – | – | – |
| Cancellation and lapse of share options | – | – | – | – | – | (667) | 667 | – | – | – |
| Disposal of subsidiaries | – | – | – | – | (786) | – | 786 | – | – | – |
| At 30 June 2010 | 47,056 | 644,224 | 612,360 | 7,887 | 4,866 | – | (414,821) | 901,572 | 500 | 902,072 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Exchange reserve HK$'000 | Statutory reserve fund HK$'000 | Retained profits/ (accumulated losses) HK$'000 | Total HK$'000 | Non-controlling interest HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 July 2010 | 47,056 | 644,224 | 612,360 | 7,887 | 4,866 | (414,821) | 901,572 | 500 | 902,072 |
| Placements of new shares *(Note 33)* | 72,000 | 68,317 | – | – | – | – | 140,317 | – | 140,317 |
| Issue of shares upon conversion of convertible bond *(Note 33)* | 133,200 | 302,360 | – | – | – | – | 435,560 | – | 435,560 |
| Transactions with owners | 205,200 | 370,677 | – | – | – | – | 575,877 | – | 575,877 |
| Profit for the year | – | – | – | – | – | 358,224 | 358,224 | – | 358,224 |
| Other comprehensive income | – | – | – | (4,313) | – | – | (4,313) | – | (4,313) |
| Total comprehensive income for the year | – | – | – | (4,313) | – | 358,224 | 353,911 | – | 353,911 |
| Capital reorganisation *(Note 33)* | (239,643) | – | – | – | – | 239,643 | – | – | – |
| **At 30 June 2011** | **12,613** | **1,014,901** | **612,360** | **3,574** | **4,866** | **183,046** | **1,831,360** | **500** | **1,831,860** |

*Notes:*

The contributed surplus represented (i) the net balance after setting off accumulated losses of the Company as at 1 April 2002 from reduced share capital and cancelled share premium of the Company in accordance with the Company's capital reorganisation in September 2002; and (ii) the credit arising from the capital reduction in accordance with the Company's capital reorganisation in July 2009 as detailed in Note 33(i).

The exchange reserve comprised all foreign exchange differences arising from the translation of the financial statements of foreign operations, hedges of net investment in foreign operations and share of reserves of associates.

The statutory reserve fund of the Group represents reserve required by the relevant People's Republic of China (the "PRC") laws applicable to the Company's PRC subsidiaries and share of statutory reserve fund of an associate.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Cash flows from operating activities** | | |
| Profit/(loss) before taxation from continuing and discontinued operations | **356,702** | (106,305) |
| Adjustments for: | | |
| Share-based payments expense | **–** | 3,996 |
| Loss on disposal of property, plant and equipment | **1,674** | 8,120 |
| (Gain)/loss on disposal of subsidiaries | **(5,295)** | 197,141 |
| Depreciation of property, plant and equipment | **35,696** | 53,092 |
| Amortisation of intangible asset | **–** | 6,197 |
| Charge of prepaid lease payments for land | **2,697** | 2,752 |
| Change in fair value of derivative financial instruments | **(21,802)** | 3,500 |
| Change in fair value of convertible bond | **(462,158)** | (141,344) |
| Write-down of inventories | **2,624** | 2,618 |
| Impairment loss recognised for doubtful debts, net | **352** | 2,093 |
| Impairment loss on prepayments for property, plant and equipment | **–** | 1,600 |
| Impairment loss on other receivable | **2,486** | – |
| Impairment loss on property, plant and equipment | **46,731** | 26,430 |
| Share of results of an associate | **1,895** | 2,230 |
| Interest income | **(2,469)** | (3,017) |
| Finance costs | **20,496** | 31,494 |
| Operating (loss)/profit before working capital changes | **(20,371)** | 90,597 |
| Increase in inventories | **(2,688)** | (31,234) |
| Increase in debtors, other loans and receivables, deposits and prepayments | **(4,935)** | (197,051) |
| Decrease/(increase) in bills receivable | **16,123** | (6,115) |
| (Decrease)/increase in creditors, other advances and accrued charges | **(18,000)** | 84,896 |
| (Decrease)/increase in bills payable | **(24,252)** | 12,984 |
| Increase in derivative financial instruments | **9,230** | 7,800 |
| **Cash used in operations** | **(44,893)** | (38,123) |
| Taxation paid | **(1,338)** | (36,335) |
| **Net cash used in operating activities** | **(46,231)** | (74,458) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

| | 2011<br>*HK$'000* | 2010<br>*HK$'000* |
|---|---|---|
| **Investing activities** | | |
| Interest received | **2,469** | 3,017 |
| Purchases of property, plant and equipment | **(11,904)** | (25,209) |
| Acquisition of subsidiaries | **–** | (83,887) |
| Proceeds from disposal of property, plant and equipment | **1,490** | 275 |
| Net cash inflow from disposal of subsidiaries | **5,151** | 7,934 |
| Direct cost paid for disposal of subsidiaries | **–** | (4,044) |
| Decrease/(increase) in pledged deposits and bank balances | **10,275** | (1,852) |
| Payment of deferred consideration | **(6,825)** | – |
| **Net cash generated from/(used in) investing activities** | **656** | (103,766) |
| **Financing activities** | | |
| Interest paid on borrowings | **(9,724)** | (14,094) |
| Interest paid on finance leases | **(45)** | (707) |
| Net proceeds from placements of shares | **140,317** | 325,444 |
| Proceeds received from exercise of share options | **–** | 11,864 |
| Direct cost paid for the conversion of convertible bond | **(549)** | – |
| New borrowings raised | **59,831** | 189,763 |
| Repayment of obligations under finance leases | **(665)** | (3,681) |
| Repayment of borrowings | **(183,356)** | (215,046) |
| **Net cash generated from financing activities** | **5,809** | 293,543 |
| **Net (decrease)/increase in cash and cash equivalents** | **(39,766)** | 115,319 |
| **Cash and cash equivalents at beginning of the year** | **217,244** | 98,442 |
| **Effect of foreign exchange rate changes** | **3,891** | 3,483 |
| **Cash and cash equivalents at end of the year** | **181,369** | 217,244 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Bank balances and cash | **181,369** | 217,244 |

## 1. Organisation and Operations

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

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and trading of cables and wires and manufacture and trading of copper rods. Its associate is principally engaged in the manufacture and trading of optical fibre cable and related products. Further details are set out in Notes 7, 18 and 19.

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

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs")

### (a) Adoption of new/revised HKFRSs – effective 1 July 2010

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs |
| Amendments to HKAS 32 | Classification of Rights Issues |
| Amendments to HKFRS 2 | Share-based Payment – Group Cash-settled Share-based Payment Transactions |
| HK(IFRIC) – Interpretation 19 | Extinguishing Financial Liabilities with Equity Instruments |
| HK Interpretation 5 | Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause |

Except as explained below, the adoption of these new/revised standards and interpretation has no significant impact on the Group's financial statements.

*HKAS 17 (Amendments) – Leases*

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group concluded that the classification of such leases as operating leases continues to be appropriate.

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

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

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| Amendments to HK(IFRIC) – Interpretation 14 | Repayments of a Minimum Funding Requirement[1] |
| HKAS 24 (Revised) | Related Party Disclosures[1] |
| Amendments to HKFRS 7 | Disclosure – Transfers of Financial Assets[2] |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets[3] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[4] |
| HKAS 19 (2011) | Employee Benefits[5] |
| HKAS 27 (2011) | Separate Financial Statements[5] |
| HKAS 28 (2011) | Investments in Associates and Joint Ventures[5] |
| HKFRS 9 | Financial Instruments[5] |
| HKFRS 10 | Consolidated Financial Statements[5] |
| HKFRS 11 | Joint Arrangements[5] |
| HKFRS 12 | Disclosure of Interests in Other Entities[5] |
| HKFRS 13 | Fair Value Measurement[5] |

*Effective date:*

(1) Annual periods beginning on or after 1 January 2011
(2) Annual periods beginning on or after 1 July 2011
(3) Annual periods beginning on or after 1 January 2012
(4) Annual periods beginning on or after 1 July 2012
(5) Annual periods beginning on or after 1 January 2013

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

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

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

HKFRS 10 replaces HKAS 27 and HK(SIC) – Interpretation 12. HKFRS 10 is based on a single control model for all entities and introduces three key elements to the definition of control. It also includes guidance to be applied in circumstances where the assessment of control may be difficult, including where an entity has potential voting right (such as share options) over another, agency relationships and cases where voting rights are not the principal indicator of control.

HKFRS 11 replaces HKAS 31. It is based on the principle that each party to a joint arrangement accounts for its rights and obligations that arise from that arrangement.

HKFRS 12 combines, and makes consistent, certain existing disclosures that were previously included, in some cases with overlapping requirements. In addition, it introduces certain new disclosure requirements, including those related to unconsolidated structured entities where a lack of transparency about entities' exposures to related risks was highlighted by the global financial crisis.

The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

## 3. Basis of Preparation and Significant Accounting Policies

### Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

### Basis of preparation of financial statements

These financial statements have been prepared under the historical cost basis, except for certain financial instruments and derivative components of convertible bond, which are measured at fair values, as explained in the accounting policies set out below.

## 3. Basis of Preparation and Significant Accounting Policies (continued)

### Basis of consolidation

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

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained profits) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly-controlled entity.

## 3. Basis of Preparation and Significant Accounting Policies (continued)

### Business combinations

Acquisition of subsidiaries and business is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value, except for non-current assets (or disposed groups) that are classified as held for sale, which are recognised and measured at fair value less costs to sell. Acquisition costs incurred are expensed.

### Subsidiaries

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

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

### Associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate, which includes any long-term interests that, in substance, form part of the Group's net investment in the associate, are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred, in which case they are recognised immediately in profit or loss.

## 3. Basis of Preparation and Significant Accounting Policies (continued)

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

### Revenue recognition

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

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

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

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

(iv) Revenue from provision of services is recognised when the services have been rendered.

### Borrowing costs

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

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

### Property, plant and equipment

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

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

Leasehold improvements are depreciated over the shorter of the remaining term of the lease or at 10% per annum using the straight-line method.

Properties in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment losses. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

## 3. Basis of Preparation and Significant Accounting Policies (continued)

### Property, plant and equipment (continued)

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

| | |
|---|---|
| Equipment, furniture and fixtures | 20% – 30% |
| Plant and machinery | 6.67% – 20% |
| Motor vehicles | 20% – 30% |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

### Prepaid lease payments for land

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

### Mining rights

Mining rights are stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Amortisation of mining rights is calculated to write off the cost less accumulated impairment losses over the useful life of the mine in accordance with the production plans and reserves of the mines on the unit-of-production method.

During the year, the directors planned to start the Group's mining activities in near future. The directors consider that it is more appropriate to amortise the Group's mining right over the useful life of the mine in accordance with the production plans and reserves of the mine on the unit-of-production method (2010: straight-line method). The change in the expected pattern of consumption of the future economic benefits embodied in the mining right has resulted in a decrease in the Group's amortisation charge by approximately HK$38,823,000 for the current year.

### Impairment of assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have reduced. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

## 3. Basis of Preparation and Significant Accounting Policies (continued)

### Impairment of assets excluding goodwill (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, including an appropriate portion of fixed and variable overhead expenses, is assigned to inventories by the method most appropriate to the particular class of inventories, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Income taxes

Income tax expenses represent the sum of the tax currently payable and deferred tax.

*(i)* *Current tax*

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

*(ii)* *Deferred tax*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

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

## 3. Basis of Preparation and Significant Accounting Policies (continued)

### Income taxes (continued)

*(ii) Deferred tax (continued)*

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Leases

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

Assets held under finance leases are capitalised at their fair values at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor, net of interest charges, is included in the consolidated statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in profit or loss over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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

## 3. Basis of Preparation and Significant Accounting Policies (continued)

### Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised as profit or loss in the period in which they arise. Exchange differences arising on the translation of non-monetary items carried at fair value are included as profit or loss for the period except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollar using exchange rates prevailing at the end of reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in exchange reserve within equity. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### Financial instruments

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

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

*Financial assets*

The Group's financial assets mainly include loans and receivables and derivative component of convertible bond. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

## 3. Basis of Preparation and Significant Accounting Policies (continued)

### Financial instruments (continued)

*Financial assets (continued)*

The Group assesses at the end of each reporting period whether there is any objective evidence a financial asset or a group of financial assets is impaired. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and has an impact on the estimated future cash flows of the financial assets. Evidence of impairment may include indications that a significant financial difficulty of the debtor; a breach of contract; granting concession to debtor with financial difficulty; or it becomes probable that the debtor will enter bankruptcy or other financial reorganisation. The impairment is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The initial recognition and subsequent measurement of derivative component of convertible bond issued by the Group are set out respective accounting policies below.

*Financial liabilities and equity*

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

Borrowings

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

Financial guarantee contract

Financial guarantee contract issued by the Group are measured initially at their fair value and are subsequently measured at the higher of:

– the amount of the obligation under the contract, as determined in accordance with the provision policies, or

– the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

## 3. Basis of Preparation and Significant Accounting Policies (continued)

### Financial instruments (continued)

*Financial liabilities and equity (continued)*

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Equity instruments

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

Convertible bond

Convertible bond issued by the Group that contains both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the conversion option derivative components and liability component are recognised at fair value.

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method, until extinguished on conversion or maturity. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

When the bond is converted, the carrying amount of the liability component together with the fair value of the conversion derivative at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the bond is redeemed, and difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and conversion option derivative components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivative is recognised in profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible bond using the effective interest method.

## 3. Basis of Preparation and Significant Accounting Policies (continued)

### Financial instruments (continued)

*Financial liabilities and equity (continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments, hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments, or hedges of net investments in foreign operations.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not expected to be realised or settled within twelve months. Other derivatives are presented as current assets or current liabilities.

Derivatives not qualified for hedging

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

Derecognition

Financial 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 received or receivable is recognised in profit or loss.

### Provisions

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

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

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

## 3. Basis of Preparation and Significant Accounting Policies (continued)

### Contingent liabilities

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

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

### Equity-settled share-based payment transactions

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

The fair value of share options has been recognised in profit or loss as share-based payments.

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

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

*Share options granted to others*

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

### Employees' benefits

*Short term benefits*

Salaries, annual bonuses, paid annual leaves and other allowances are accrued in the year in which the associated services are rendered by employees.

*Defined contribution pension obligations*

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

### Related parties

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

## 4. Key Sources of Estimation Uncertainty

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

### Net realisable value of inventories

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

### Depreciation of property, plant and equipment

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

### Reserve estimates and amortisation of mining right

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

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process and the determination of appropriate amortisation method of mining right may require complex and difficult geological judgments and calculations to interpret the data as well as consideration of the production plan.

### Income taxes

The Group is subject to income taxes in various jurisdictions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## 4. Key Sources of Estimation Uncertainty (continued)

### Impairment of property, plant and equipment

In determining whether an item of property, plant and equipment is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset or a cash-generating unit can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or cash-generating unit, or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

## 5. Financial Risk Management

### a. Financial risk management objectives and policies

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

*Foreign currency risk*

Most of the Group's assets and liabilities are denominated in Hong Kong dollars, United States dollars and Renminbi, which are the functional currencies of respective group companies. The Group does not expect any significant exposure to foreign currency risks.

*Credit risk*

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

The Group has no significant concentration of credit with exposure spread over a number of counterparties and customers.

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

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

## 5. Financial Risk Management (continued)

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

*Interest rate risk*

Cash flow interest rate risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of the financial instruments will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk which relates primarily to the Group's floating-rate bank borrowings and the details of borrowings are disclosed in Note 29. Management closely monitors cash flow interest rate risk and will consider hedging significant interest rate exposure should the need arise. It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 29.

At 30 June 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and retained profits by approximately HK$1,126,000 (2010: increase/decrease the loss and accumulated losses by HK$1,653,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for the year ended 30 June 2010.

*Liquidity risk*

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

## 5. Financial Risk Management (continued)

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

*Liquidity risk (continued)*

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

| **The Group** | **Carrying amount** *HK$'000* | **Total contractual undiscounted cash flow** *HK$'000* | **Within 1 year or on demand** *HK$'000* | **More than 1 year but less than 2 years** *HK$'000* | **More than 2 years but less than 5 years** *HK$'000* |
|---|---|---|---|---|---|
| **2011** | | | | | |
| Borrowings | **59,831** | **60,204** | **60,204** | **–** | **–** |
| Obligations under finance leases | **755** | **780** | **493** | **287** | **–** |
| Creditors, other advances and accrued charges, and bills payable | **141,134** | **141,134** | **141,134** | **–** | **–** |
| | **201,720** | **202,118** | **201,831** | **287** | **–** |
| Derivative financial liabilities | **–** | **–** | **–** | **–** | **–** |
| 2010 | | | | | |
| Borrowings | 165,338 | 167,678 | 167,678 | – | – |
| Obligations under finance leases | 1,420 | 1,583 | 803 | 780 | – |
| Creditors, other advances and accrued charges, and bills payable | 183,386 | 183,386 | 183,386 | – | – |
| Deferred consideration payable | 6,825 | 6,825 | 6,825 | – | – |
| Liability component of convertible bond | 1,006,355 | 1,332,000 | – | – | 1,332,000 |
| | 1,363,324 | 1,691,472 | 358,692 | 780 | 1,332,000 |
| Derivative financial liabilities | 11,766 | 221,743 | 221,743 | – | – |

## 5. Financial Risk Management (continued)

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

*Liquidity risk (continued)*

| The Company | Carrying amount *HK$'000* | Total contractual undiscounted cash flow *HK$'000* | Within 1 year or on demand *HK$'000* | More than 1 year but less than 2 years *HK$'000* | More than 2 years but less than 5 years *HK$'000* |
|---|---|---|---|---|---|
| **2011** | | | | | |
| Amounts due to subsidiaries | **60,557** | **60,557** | **60,557** | **–** | **–** |
| Other advances and accrued charges | **455** | **455** | **455** | **–** | **–** |
| | **61,012** | **61,012** | **61,012** | **–** | **–** |
| Financial guarantee issued | | | | | |
| Maximum amount guaranteed | **–** | **–** | **42,898** | **–** | **–** |
| 2010 | | | | | |
| Amounts due to subsidiaries | 60,557 | 60,557 | 60,557 | – | – |
| Other advances and accrued charges | 898 | 898 | 898 | – | – |
| Liability component of convertible bond | 1,006,355 | 1,332,000 | – | – | 1,332,000 |
| | 1,067,810 | 1,393,455 | 61,455 | – | 1,332,000 |
| Financial guarantee issued | | | | | |
| Maximum amount guaranteed | – | – | 28,558 | – | – |

*Copper price risk*

The Group is exposed to price risk of copper rods, which are the major raw materials for the production process. To mitigate the copper price risk, the Group has entered into copper future contracts to hedge against the fluctuations of copper price. Details of the copper future contracts outstanding at the end of reporting period are set out in Note 23.

At 30 June 2011, it is estimated that a general increase/decrease of 10% in copper future contract price, with all other variables held constant, would increase/decrease the Group's profit for the year and retained profits by approximately HK$70,731,000 (2010: decrease/increase the loss and accumulated losses by approximately HK$22,730,000) in respect of the instruments outstanding throughout the year.

## 5. Financial Risk Management (continued)

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

*Copper price risk (continued)*

The sensitivity analysis above has been determined assuming that the change in copper future contract price had occurred at the end of reporting period and had been applied to the exposure to copper future contract price risk for both derivative and non-derivative financial instruments in existence at that date. The 10% increase or decrease represents management's assessment of a reasonably possible change in copper future contract price over the period until the next annual reporting date. The analysis is performed on the same basis for the year ended 30 June 2010.

### b. Fair value

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

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

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

- the fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials according to professional valuation report, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

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

HKFRS 7 requires disclosure for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1 – Quoted price (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted price included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
Level 3 – Inputs for the asset or liability that are not based on observable market data.

## 5. Financial Risk Management (continued)

### b. Fair value (continued)

At 30 June 2011, the Group's derivatives are measured at fair value. During the year, there is no significant transfer between Level 1 and Level 2.

| | **Group 2011** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Assets | | | | |
| Copper future contracts | **806** | **–** | **–** | **806** |

| | Group 2010 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Assets/(liabilities) | | | | |
| Put option of convertible bond | – | 141,081 | – | 141,081 |
| Copper future contracts | (11,766) | – | – | (11,766) |
| Call option of convertible bond | – | (22,266) | – | (22,266) |
| | (11,766) | 118,815 | – | 107,049 |

## 6. Turnover

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

## 7. Segmental Information

### (a) Reportable segments

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

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The Group's reportable segments are as follows:

(i) manufacture and trading of cables and wires; and

(ii) manufacture and trading of copper rods.

As detailed in Note 36, on 31 December 2009, the Company entered into a conditional sale and purchase agreement to dispose of its business of the manufacture and trading of connectors and terminals and it had been completed on 30 April 2010. Further details are set out in the Company's announcement and circular dated 8 January 2010 and 9 April 2010 respectively. Accordingly, the business segment of manufacture and trading of connectors and terminals was classified as discontinued operations for the year ended 30 June 2010.

As detailed in Note 35, on 4 May 2010, the Group completed its acquisition of mining operation located in the State of Mongolia and became engaged in the mining business, details of which are set out in the Company's announcements dated 30 November 2009 and 4 May 2010, and circular dated 9 April 2010. However, no active operation took place since the date of acquisition and therefore the directors of the Company consider that the mining operation did not constitute a business segment as at 30 June 2010 and 2011 and for the years then ended for the purpose of segment reporting.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is measure of adjusted profit/(loss) before taxation. The adjusted profit/(loss) before taxation is measured consistently with the Group's profit/(loss) before taxation except that interest income as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

## 7. Segmental Information (continued)

### (a) Reportable segments (continued)

*For the year ended 30 June 2011*

| | Continuing operations | | | | | |
|---|---|---|---|---|---|---|
| | Cables and wires *HK$'000* | Copper rods *HK$'000* | Others *HK$'000* | Total *HK$'000* | Elimination *HK$'000* | Total *HK$'000* |
| Revenue from external customers | 316,551 | 390,984 | – | 707,535 | – | 707,535 |
| Inter-segment revenue | 311 | 102,334 | – | 102,645 | (102,645) | – |
| Reportable segment revenue | 316,862 | 493,318 | – | 810,180 | (102,645) | 707,535 |
| Reportable segment (loss)/profit | (40,152) | (16,642) | 422,455 | 365,661 | – | 365,661 |
| Finance costs | (1,236) | (8,533) | (10,727) | (20,496) | – | (20,496) |
| Change in fair value of derivative financial instruments | 2,789 | 2,396 | 16,617 | 21,802 | – | 21,802 |
| Change in fair value of convertible bond | – | – | 462,158 | 462,158 | – | 462,158 |
| Impairment loss recognised for doubtful debts, net | (352) | – | – | (352) | – | (352) |
| Impairment loss on property, plant and equipment | (25,123) | (12,868) | (8,740) | (46,731) | – | (46,731) |
| Share of results of an associate | – | – | (1,895) | (1,895) | – | (1,895) |
| Gain on disposal of a subsidiary | – | 5,295 | – | 5,295 | – | 5,295 |
| Depreciation of property, plant and equipment | (16,425) | (9,213) | (10,058) | (35,696) | – | (35,696) |
| Taxation | 353 | 1,211 | (42) | 1,522 | – | 1,522 |

## 7. Segmental Information (continued)

### (a) Reportable segments (continued)

*For the year ended 30 June 2010*

| | Continuing operations | | | | Discontinued operation | | |
|---|---|---|---|---|---|---|---|
| | Cables and wires *HK$'000* | Copper rods *HK$'000* | Others *HK$'000* | Total *HK$'000* | Connectors and terminals *HK$'000* | Elimination *HK$'000* | Total *HK$'000* |
| Revenue from external customers | 390,374 | 366,038 | 32 | 756,444 | 647,836 | – | 1,404,280 |
| Inter-segment revenue | 14,381 | 113,001 | – | 127,382 | 256 | (127,638) | – |
| Reportable segment revenue | 404,755 | 479,039 | 32 | 883,826 | 648,092 | (127,638) | 1,404,280 |
| Reportable segment (loss)/profit | (35,855) | (9,315) | 124,313 | 79,143 | (140,547) | – | (61,404) |
| Finance costs | (3,394) | (10,589) | (16,694) | (30,677) | (817) | – | (31,494) |
| Change in fair value of derivative financial instruments | (2,585) | 1,622 | (2,537) | (3,500) | – | – | (3,500) |
| Change in fair value of convertible bond | – | – | 141,344 | 141,344 | – | – | 141,344 |
| Impairment loss recognised for doubtful debts, net | (1,739) | (104) | – | (1,843) | (250) | – | (2,093) |
| Impairment loss on prepayments for property, plant and equipment | (1,600) | – | – | (1,600) | – | – | (1,600) |
| Impairment loss on property, plant and equipment | – | – | – | – | (26,430) | – | (26,430) |
| Share of results of an associate | (2,230) | – | – | (2,230) | – | – | (2,230) |
| Amortisation of intangible asset | – | – | (6,197) | (6,197) | – | – | (6,197) |
| Loss on disposal of subsidiaries | – | – | – | – | (197,141) | – | (197,141) |
| Depreciation of property, plant and equipment | (25,744) | (9,046) | (2,327) | (37,117) | (15,975) | – | (53,092) |
| Taxation | 918 | 1,344 | (51) | 2,211 | (34,566) | – | (32,355) |

## 7. Segmental Information (continued)

### (a) Reportable segments (continued)

*As at 30 June 2011*

| | Continuing operations | | | | Discontinued operation | |
|---|---|---|---|---|---|---|
| | **Cables and wires** | **Copper rods** | **Others** | **Total** | **Connectors and terminals** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Reportable segment assets | **274,851** | **330,506** | **1,361,285** | **1,966,642** | **–** | **1,966,642** |
| Additions to non-current assets | **11,636** | **144** | **124** | **11,904** | **–** | **11,904** |
| Reportable segment liabilities | **33,954** | **165,764** | **1,976** | **201,694** | **–** | **201,694** |

*As at 30 June 2010*

| | Continuing operations | | | | Discontinued operation | |
|---|---|---|---|---|---|---|
| | Cables and wires | Copper rods | Others | Total | Connectors and terminals | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Reportable segment assets | 350,786 | 359,493 | 1,593,150 | 2,303,429 | – | 2,303,429 |
| Additions to non-current assets | 3,081 | 154 | 1,167,206 | 1,170,441 | 21,572 | 1,192,013 |
| Reportable segment liabilities | 115,852 | 230,958 | 1,045,450 | 1,392,260 | – | 1,392,260 |

## 7. Segmental Information (continued)

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

| | For the year ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| **Profit/(loss) before taxation** | | |
| Reportable segment profit/(loss) | **365,661** | (61,404) |
| Segment loss from discontinued operation | **–** | 140,547 |
| Unallocated corporate expenses | **(8,959)** | (44,901) |
| Consolidated profit before taxation from continuing operations | **356,702** | 34,242 |

| | **30 June** | 30 June |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| **Assets** | | |
| Reportable segment assets | **1,966,642** | 2,303,429 |
| Unallocated corporate assets | **89,265** | 19,919 |
| Consolidated total assets | **2,055,907** | 2,323,348 |

| | **30 June** | 30 June |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| **Liabilities** | | |
| Reportable segment liabilities | **201,694** | 1,392,260 |
| Taxation | **54** | 347 |
| Deferred tax liabilities | **22,273** | 23,573 |
| Unallocated corporate liabilities | **26** | 5,096 |
| Consolidated total liabilities | **224,047** | 1,421,276 |

## 7. Segmental Information (continued)

### (c) Geographical information

The Group's operations and non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets (the "Specified non-current assets") are located in Hong Kong, the PRC, Americas, Europe and other Asian regions.

The following table provides an analysis of the Group's sales and the Specified non-current assets by geographical markets from continuing operations, irrespective of the origin of the goods:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| PRC | **518,060** | 586,809 |
| Americas | **96,637** | 91,806 |
| Europe | **36,330** | 29,731 |
| Hong Kong | **25,585** | 23,666 |
| Other Asian regions | **30,923** | 24,432 |
| | **707,535** | 756,444 |

| | **Specified non-current assets** | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| PRC | **314,683** | 389,496 |
| Americas | **–** | 99 |
| Europe | **254** | 318 |
| Hong Kong | **17,644** | 10,122 |
| Other Asian regions | **1,164,619** | 1,163,828 |
| | **1,497,200** | 1,563,863 |

### (d) Information about major customers

During the year, a customer contributed revenue of HK$76,909,000 to the Group's manufacturing and trading of cables and wires segment and a customer contributed revenue of HK$88,387,000 to the Group's manufacturing and trading of copper rods segment.

During the prior year, a customer contributed revenues of HK$61,857,000 and HK$396,880,000 to the Group's manufacturing and trading of cables and wires segment and connectors and terminals segment, respectively.

## 8. Profit/(Loss) Before Taxation

| | Continuing operations | | Discontinued operation | | Total | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Profit/(loss) before taxation has been arrived at after charging: | | | | | | |
| Auditors' remuneration | **1,048** | 1,545 | **–** | 748 | **1,048** | 2,293 |
| Depreciation of property, plant and equipment | **35,696** | 37,117 | **–** | 15,975 | **35,696** | 53,092 |
| Amortisation of intangible asset | **–** | 6,197 | **–** | – | **–** | 6,197 |
| Cost of inventories *(Note)* | **676,582** | 716,830 | **–** | 492,764 | **676,582** | 1,209,594 |
| Write-down of inventories | **2,624** | 2,618 | **–** | – | **2,624** | 2,618 |
| Charge of prepaid lease payments for land | **2,697** | 2,602 | **–** | 150 | **2,697** | 2,752 |
| Operating lease rentals in respect of rented premises | **848** | 1,423 | **–** | 1,437 | **848** | 2,860 |
| Impairment loss on prepayments for property, plant and equipment | **–** | 1,600 | **–** | – | **–** | 1,600 |
| Impairment loss on other receivable | **2,486** | – | **–** | – | **2,486** | – |
| Loss on disposal of property, plant and equipment | **1,674** | 2,225 | **–** | 5,895 | **1,674** | 8,120 |
| Wages, salaries and pension attribution including directors' remuneration *(Notes 41 and 9)* | **33,918** | 63,436 | **–** | 31,562 | **33,918** | 94,998 |
| Share-based payments expense *(Note 40)* | **–** | 3,996 | **–** | – | **–** | 3,996 |
| and after crediting: | | | | | | |
| Interest income | **2,469** | 664 | **–** | 2,353 | **2,469** | 3,017 |
| Rental income | **1,300** | – | **–** | – | **1,300** | – |
| Sub-contracting income | **32,945** | 32,632 | **–** | – | **32,945** | 32,632 |
| Sale of scrapped inventories | **209** | 36 | **–** | 15 | **209** | 51 |
| Exchange differences, net | **15,407** | (1,485) | **–** | (4,894) | **15,407** | (6,379) |

*Note:*

Cost of inventories includes HK$32,845,000 (2010: HK$90,806,000) relating to staff costs, depreciation of property, plant and equipment and charge of prepaid lease payments for land, for which the amounts are also included in the respective total amounts disclosed separately above. Cost of inventories includes net write-down of inventories of HK$2,624,000 (2010: HK$2,618,000).

## 9. Remuneration of Directors and Five Highest Paid Individuals

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

| Name of director | Fees | | Salaries and other benefits | | Retirement benefit scheme contributions | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2011** **HK$'000** | 2010 *HK$'000* | **2011** **HK$'000** | 2010 *HK$'000* | **2011** **HK$'000** | 2010 *HK$'000* | **2011** **HK$'000** | 2010 *HK$'000* |
| Mr. Chau Lai Him | **–** | – | **5,062** | 3,825 | **12** | 12 | **5,074** | 3,837 |
| Mr. Zhou Jin Hua | **–** | – | **1,259** | 1,380 | **128** | – | **1,387** | 1,380 |
| Mr. Liu Dong Yang | **145** | – | **120** | 123 | **22** | – | **287** | 123 |
| Mr. Buyan-Otong Narmandakh | **130** | – | **–** | – | **–** | – | **130** | – |
| Mr. Chung Kam Kwong | **120** | 120 | **–** | – | **–** | – | **120** | 120 |
| Mr. Lo Wai Ming | **96** | 96 | **–** | – | **–** | – | **96** | 96 |
| Mr. Lo Chao Ming | **60** | 60 | **–** | – | **–** | – | **60** | 60 |
| Mr. Liu Jin Rong | **–** | – | **–** | 88 | **–** | – | **–** | 88 |
| Mr. Ho Pang Cheng, Vincent | **–** | – | **–** | 783 | **–** | 39 | **–** | 822 |
| Mr. Lam Chi Ming, Francis | **–** | – | **–** | 624 | **–** | 6 | **–** | 630 |
| Mr. Chan Sio Keung | **–** | – | **–** | 256 | **–** | 5 | **–** | 261 |
| Total | **551** | 276 | **6,441** | 7,079 | **162** | 62 | **7,154** | 7,417 |

There was no share option granted to any director of the Company in the current and prior years.

There was no arrangement under which a director waived or agreed to waive any remuneration during the current and prior years.

The five highest paid individuals of the Group include two (2010: two) executive directors of the Company, details of whose remuneration are included above. The emoluments of the remaining three (2010: three) individuals were as follows:

| | **2011** **HK$'000** | 2010 *HK$'000* |
|---|---|---|
| Salaries and other benefits | **3,040** | 4,125 |
| Contributions to retirement benefit schemes | **301** | 404 |
| | **3,341** | 4,529 |

## 9. Remuneration of Directors and Five Highest Paid Individuals (continued)

Remuneration of these individuals was within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2011** | 2010 |
| Nil – HK$1,000,000 | **1** | 1 |
| HK$1,000,001 – HK$1,500,000 | **2** | – |
| HK$1,500,001 – HK$2,000,000 | **–** | 2 |

## 10. Finance Costs

| | Continuing operations | | Discontinued operation | | Total | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest on bank and other borrowings wholly repayable within five years | **9,724** | 13,869 | **–** | 225 | **9,724** | 14,094 |
| Interest on finance leases | **45** | 115 | **–** | 592 | **45** | 707 |
| Imputed interest on convertible bond *(Note 32)* | **10,727** | 16,693 | **–** | – | **10,727** | 16,693 |
| | **20,496** | 30,677 | **–** | 817 | **20,496** | 31,494 |

## 11. Taxation

| | Continuing operations | | Discontinued operation | | Total | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong profits tax: | | | | | | |
| Current year | **–** | – | **–** | – | **–** | – |
| Under-provision in respect of prior years | **42** | 51 | **–** | – | **42** | 51 |
| Taxation in other jurisdictions: | | | | | | |
| Current year | **701** | 968 | **–** | 35,117 | **701** | 36,085 |
| Over-provision in respect of prior years | **(160)** | (714) | **–** | (431) | **(160)** | (1,145) |
| | **583** | 305 | **–** | 34,686 | **583** | 34,991 |
| Deferred taxation *(Note 31)* | **(2,105)** | (2,516) | **–** | (120) | **(2,105)** | (2,636) |
| Tax (credit)/charge for the year | **(1,522)** | (2,211) | **–** | 34,566 | **(1,522)** | 32,355 |

## 11. Taxation (continued)

Hong Kong profits tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits arising in Hong Kong during the year.

Taxation in other countries and jurisdictions is calculated at the rates applicable in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The domestic tax rate of principal subsidiaries in the PRC is used as it is where the operations of the Group are substantially based. The standard corporate income tax rate for enterprises in the PRC is 25%. Accordingly the applicable corporate income tax rate was 25% for the years ended 30 June 2011 and 2010.

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Profit/(loss) before taxation | **356,702** | (106,305) |
| Tax at the PRC income tax rate of 25% (2010: 25%) | **89,176** | (26,576) |
| Tax effect of expenses not deductible for tax purpose | **35,372** | 130,834 |
| Tax effect of income not taxable for tax purpose | **(124,632)** | (79,607) |
| Tax effect of tax losses not recognised | **53** | 211 |
| Utilisation of tax losses previously not recognised | **(1,692)** | (2,507) |
| Over-provision in respect of prior years | **(118)** | (1,094) |
| Effect of different tax rates of the Company's subsidiaries operating outside of the PRC | **(155)** | 10,537 |
| Tax effect on share of results of an associate | **474** | 557 |
| Taxation for the year | **(1,522)** | 32,355 |

## 12. Profit/(Loss) for the Year Attributable to Owners of the Company

The consolidated loss from ordinary activities attributable to owners of the Company for the year ended 30 June 2011 includes a profit of HK$441,061,000 (2010: HK$110,686,000) which has been dealt with in the financial statements of the Company.

## 13. Dividend

The directors do not recommend the payment of any dividend for the year ended 30 June 2011 (2010: HK$Nil).

## 14. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the capital reorganisation during the current year (Note 33(i)). Basic and diluted earnings/(loss) per share amounts for the year ended 30 June 2010 are restated to take into effect the capital reorganisation during the current year.

### From continuing and discontinued operations

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

*Profit/(loss)*

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| Profit/(loss) for the purpose of basic earnings/(loss) per share | **358,224** | (138,660) |
| Effect of dilutive ordinary shares: | | |
| Interest on convertible bonds | **10,727** | – |
| Change in fair value of convertible bond | **(462,158)** | – |
| Loss for the purpose of diluted loss per share | **(93,207)** | (138,660) |

*Number of shares*

| | **2011** | 2010<br>(Restated) |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share | **1,081,736,314** | 83,333,122 |
| Effect of dilutive ordinary shares: | | |
| Convertible bond | **59,511,933** | – |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | **1,141,248,247** | 83,333,122 |

The computation of diluted loss per share from continuing and discontinued operations did not assume the conversion of the Company's outstanding convertible bond during the year ended 30 June 2010 since its exercise would have an anti-dilutive effect in the prior year.

## 14. Earnings/(Loss) Per Share (continued)

### From continuing operations

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

*Profit/(loss)*

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the purpose of basic loss per share from continuing operations | **358,224** | 36,453 |
| Effect of dilutive ordinary shares: | | |
| Interest on convertible bond (net of tax, where applicable) | **10,727** | 13,939 |
| Change in fair value of convertible bond | **(462,158)** | (141,344) |
| Loss for the purpose of diluted loss per share | **(93,207)** | (90,952) |

*Number of shares*

| | **2011** | 2010 |
|---|---|---|
| | | (Restated) |
| Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share | **1,081,736,314** | 83,333,122 |
| Effect of dilutive ordinary shares: | | |
| Convertible bond | **59,511,933** | 111,159 |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | **1,141,248,247** | 83,444,281 |

### From discontinued operation

Basic and diluted loss per share from the discontinued operation is Nil (2010: 210.13 (restated)) HK cents per share based on the loss for the year from discontinued operation attributable to owners of the Company of HK$Nil (2010: HK$175,113,000) and weighted average number of ordinary shares for the purpose of basic and diluted loss per share of 83,333,122. The computation of diluted loss per share for the discontinued operation did not assume the conversion of the Company's outstanding convertible bond during the year ended 30 June 2010 since its exercise would have an anti-dilutive effect in the prior year.

## 15. Property, Plant and Equipment

| | Construction in progress HK$'000 | Buildings HK$'000 | Leasehold improvements HK$'000 | Equipment, furniture and fixtures HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| THE GROUP | | | | | | | |
| COST: | | | | | | | |
| At 1 July 2009 | 17,716 | 239,619 | 25,245 | 68,354 | 455,100 | 18,091 | 824,125 |
| Currency realignment | 1,967 | 2,711 | 223 | 1,987 | 12,035 | 395 | 19,318 |
| Additions | – | – | 70 | 20,570 | 3,842 | 2,118 | 26,600 |
| Reclassification | (19,683) | 18,292 | – | 2,028 | (637) | – | – |
| Disposal of subsidiaries *(Note 36)* | – | (20,274) | (2,828) | (28,467) | (79,358) | (224) | (131,151) |
| Disposals | – | – | (1,278) | (16,471) | (2,931) | (3,532) | (24,212) |
| At 30 June 2010 and 1 July 2010 | – | 240,348 | 21,432 | 48,001 | 388,051 | 16,848 | 714,680 |
| Currency realignment | – | 11,478 | 932 | 2,050 | 10,148 | 638 | 25,246 |
| Additions | – | – | 2,229 | 1,859 | 2,073 | 5,743 | 11,904 |
| Reclassification | – | – | – | 1,158 | (1,158) | – | – |
| Disposals | – | – | – | (1,272) | (19,327) | (1,559) | (22,158) |
| **At 30 June 2011** | **–** | **251,826** | **24,593** | **51,796** | **379,787** | **21,670** | **729,672** |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES: | | | | | | | |
| At 1 July 2009 | – | 95,421 | 13,664 | 49,490 | 243,738 | 10,400 | 412,713 |
| Currency realignment | – | 1,230 | 134 | 1,086 | 4,678 | 346 | 7,474 |
| Provided for the year | – | 12,472 | 1,233 | 14,158 | 23,088 | 2,141 | 53,092 |
| Impairment loss | – | 10 | – | 1,840 | 24,512 | 68 | 26,430 |
| Disposal of subsidiaries *(Note 36)* | – | (409) | (2,417) | (18,628) | (41,888) | (147) | (63,489) |
| Reclassification | – | – | – | 989 | (989) | – | – |
| Eliminated on disposals | – | – | (846) | (10,607) | (1,413) | (2,951) | (15,817) |
| At 30 June 2010 and 1 July 2010 | – | 108,724 | 11,768 | 38,328 | 251,726 | 9,857 | 420,403 |
| Currency realignment | – | 5,514 | 529 | 1,682 | 6,754 | 386 | 14,865 |
| Provided for the year | – | 12,868 | 1,021 | 2,129 | 17,304 | 2,374 | 35,696 |
| Impairment loss | – | – | – | – | 46,731 | – | 46,731 |
| Reclassification | – | – | – | 565 | (565) | – | – |
| Eliminated on disposals | – | – | – | (1,146) | (16,736) | (1,112) | (18,994) |
| **At 30 June 2011** | **–** | **127,106** | **13,318** | **41,558** | **305,214** | **11,505** | **498,701** |
| NET CARRYING AMOUNT: | | | | | | | |
| **At 30 June 2011** | **–** | **124,720** | **11,275** | **10,238** | **74,573** | **10,165** | **230,971** |
| At 30 June 2010 | – | 131,624 | 9,664 | 9,673 | 136,325 | 6,991 | 294,277 |

## 15. Property, Plant and Equipment (continued)

At 30 June 2011, the net carrying amount of property, plant and equipment of the Group includes plant and machinery of HK$Nil (2010: HK$593,000) and motor vehicles of HK$755,000 (2010: HK$1,208,000) in respect of assets held under finance leases. None of the leases includes contingent rentals. During the year, additions to property, plant and equipment of the Group financed by new finance leases were HK$Nil (2010: HK$1,391,000).

The Group has pledged buildings with aggregate net carrying amount as at 30 June 2011 of HK$110,748,000 (2010: HK$121,619,000) to secure banking facilities granted to the Group (Note 24).

At 30 June 2011, the Group was in the process of obtaining the relevant title documents of certain of its buildings with aggregate carrying amount of HK$9,557,000 (2010: HK$10,005,000).

For the year ended 30 June 2011, certain items of property, plant and equipment were under-utilised. As a result, the Group assessed the recoverable amounts of these items. Based on the assessment, the carrying value of these items of plant and machinery and buildings was written down by HK$46,731,000 (2010: HK$26,430,000).

The recoverable amount of the property, plant and equipment has been determined based on a value-in-use calculation which uses cash flow projections based on financial budgets approved by management covering a 5-year period, average growth rate of 6.29% per annum and discount rate of 5.5% per annum. Other key assumptions relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin.

## 16. Prepaid Lease Payments for Land

| | | **The Group** | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Carrying amount: | | | |
| At beginning of year | | **99,204** | 107,987 |
| Disposal of subsidiaries | *36* | **(4,345)** | (7,140) |
| Charge to the profit or loss for the year | *8* | **(2,697)** | (2,752) |
| Exchange realignments | | **4,545** | 1,109 |
| At end of year | | **96,707** | 99,204 |

## 16. Prepaid Lease Payments for Land (continued)

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

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Leasehold land situated in the PRC held under | | |
| – medium term lease | **95,160** | 97,613 |
| Leasehold land situated in Hong Kong held under | | |
| – medium term lease | **1,547** | 1,591 |
| | **96,707** | 99,204 |
| Analysed for reporting purposes as: | | |
| Non-current | **94,048** | 96,573 |
| Current | **2,659** | 2,631 |
| | **96,707** | 99,204 |

The Group has pledged prepaid lease payments for land with aggregate carrying amount as at 30 June 2011 of HK$94,314,000 (2010: HK$94,870,000) to secure banking facilities granted to the Group (Note 24).

At 30 June 2011, the Group was in the process of obtaining the relevant title documents of certain of its land use rights with aggregate carrying amount of HK$34,874,000 (2010: HK$63,651,000).

## 17. Intangible Asset

| | The Group<br>Mining right<br>*HK$'000* |
|---|---|
| COST: | |
| Additions on acquisition of subsidiaries* | 1,165,413 |
| Exchange realignments | 4,612 |
| At 30 June 2010 and 1 July 2010 | 1,170,025 |
| Exchange realignments | 704 |
| **At 30 June 2011** | **1,170,729** |
| ACCUMULATED AMORTISATION: | |
| Charge for the year and at 30 June 2010 and 1 July 2010 | 6,197 |
| Exchange realignments | 17 |
| **At 30 June 2011** | **6,214** |
| NET CARRYING AMOUNT: | |
| **At 30 June 2011** | **1,164,515** |
| At 30 June 2010 | 1,163,828 |

* It comprised the acquisition consideration and costs directly attributable to the acquisition. Further details of the acquisition of subsidiaries which gave rise to the recognition of the mining right above are set out in Note 35.

The mining right represents the right to conduct mining activities in the location of Nergui, Delgerkhangai soum, Dundgobi aimag, Mongolia for a period of 30 years, expiring on 23 November 2039. The mining operating license is issued by the Mineral Resources Authority of the State of Mongolia. It is extendable by 2 successive 20 years each.

During the year ended 30 June 2010, the mining right was amortised using the straight-line method over the expected useful life of 30 years and the amortisation charge was included in general and administrative expenses.

During the current year, the Group reassessed the amortisation method which is to write off the cost less accumulated impairment losses over the useful life of the mine in accordance with the production plans and reserves of the mine based on the unit-of-production method. This change in accounting estimate has been accounted for prospectively during the current year.

## 18. Interests in Subsidiaries

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **8** | 8 |
| Amounts due from subsidiaries | **3,070,301** | 2,918,434 |
| | **3,070,309** | 2,918,442 |
| Less: impairment loss on investment cost | **(8)** | (8) |
| impairment loss on amounts due from subsidiaries | **(1,734,955)** | (1,331,976) |
| | **1,335,346** | 1,586,458 |

The amounts due from subsidiaries are unsecured, interest-free and are not repayable within twelve months after the end of reporting period. The amounts due from subsidiaries in substance represent the Company's interests in the subsidiaries in the form of quasi-equity loans and therefore they are included under the non-current assets of the Company.

Accumulated impairment losses on investment cost and amounts due from subsidiaries of HK$8,000 (2010: HK$8,000) and HK$1,734,955,000 (2010: HK$1,331,976,000) respectively were recognised as at 30 June 2011 because the related recoverable amounts of the investment cost and the amounts due from subsidiaries with reference to the higher of fair value less costs to sell and value in use of the respective subsidiaries were estimated to be less than their carrying amounts. Accordingly, the carrying amounts of the related investment cost and amounts due therefrom are reduced to their recoverable amounts.

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

## 18. Interests in Subsidiaries (continued)

The following list contains only the particulars of the principal subsidiaries at 30 June 2011 which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length.

| Name of company | Place of incorporation or establishment/ operation | Issued and fully paid share capital or registered capital | Proportion of nominal value of issued capital or registered capital held by the Group | Principal activities |
|---|---|---|---|---|
| Chau's Electrical (BVI) Company Limited | British Virgin Islands/ PRC | US$1 | 100% | Property holding |
| Chau's Electrical Company Limited | Hong Kong | HK$1,000 ordinary HK$500,000 non-voting deferred *(Note (a))* | 100% | Manufacture and trading of cable and wire products |
| Chau's Electrical International, Inc. | United States of America | US$20,000 | 100% | Trading of cable and wire products |
| Chau's Industrial Investments Limited | British Virgin Islands | US$1,000 | 100% | Investment holding |
| 東莞華藝銅業有限公司 Dongguan Hua Yi Brass Products Co., Ltd. # | PRC | US$14,925,000 | 100% | Manufacture and trading of copper products |
| 東莞橋梓周氏電業有限公司 Dongguan Qiaozi Chau's Electrical Co., Ltd. # | PRC | HK$6,810,000 | 100% | Manufacture and trading of cable and wire products |
| 東莞新寶精化有限公司 Dongguan Xin Bao Precision Chemical Co., Ltd. * | PRC | HK$47,400,000 | 86% | Manufacture and trading of chemical products |
| Gosberton Assets Limited | British Virgin Islands | US$1 | 100% | Holding of trademarks |
| Great Measure Investments Limited | British Virgin Islands | US$1 | 100% | Investment holding |

## 18. Interests in Subsidiaries (continued)

| Name of company | Place of incorporation or establishment/ operation | Issued and fully paid share capital or registered capital | Proportion of nominal value of issued capital or registered capital held by the Group | Principal activities |
|---|---|---|---|---|
| Hua Yi Copper Products Company Limited | Hong Kong | HK$5,000,000 | 100% | Manufacture and trading of copper products |
| Ikh Shijir Erdene LLC | State of Mongolia | US$100,000 | 100% | Mining business (not yet commenced) |
| 上海周氏電業有限公司 Shanghai Chau's Electrical Co., Ltd. # | PRC | US$2,500,000 | 100% | Manufacture and trading of cable and wire products |
| Solartech Investments Limited | British Virgin Islands | US$1 | 100% | Investment holding |
| Sun Progress Limited | British Virgin Islands | US$1 | 100% | Investment holding |
| Yellowstone Assets Limited | British Virgin Islands | US$1 | 100% | Investment holding |

\# Wholly-owned foreign enterprise
* Equity joint venture

*Notes:*

(a) The deferred shares, which are not held by the Group, practically carry no right to dividend or to receive notice of or to attend or vote at any general meeting of the subsidiary or to participate in any distribution on winding up.

(b) Except for Chau's Industrial Investments Limited and Great Measure Investments Limited, all the subsidiaries are indirectly held by the Company.

None of the subsidiaries issued any debt security at the end of reporting period.

## 19. Interest in an Associate

| | The Group 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Share of net assets | **7,666** | 9,185 |

The following sets out the particulars of the associate at 30 June 2011:

| Name of company/ form of business structure | Place of establishment | Proportion of nominal value of registered capital indirectly held by the Company | Principal activities |
|---|---|---|---|
| 侯馬普天榮盛光纜有限公司/ Corporate | PRC | 20% | Manufacture and trading of optical fibre cable and related products |

The summarised financial information in respect of the Group's associate is as follows:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Total assets | **77,885** | 88,133 |
| Total liabilities | **(39,553)** | (42,210) |
| Net assets | **38,332** | 45,923 |
| Group's share of net assets of associate | **7,666** | 9,185 |

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Revenue | **65,104** | 89,841 |
| Loss for the year | **(9,475)** | (11,149) |
| Group's share of results of associate for the year | **(1,895)** | (2,230) |

## 20. Inventories

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **66,346** | 69,943 |
| Work in progress | **3,290** | 4,812 |
| Finished goods | **42,877** | 37,694 |
| | **112,513** | 112,449 |

During the year, the Group has carried out its regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, expected future consumption and management judgment. As a result, the carrying amounts of certain inventories were determined to decline below their estimated net realisable value by the aggregate amount of HK$2,624,000 (2010: HK$2,618,000) which were recorded as a write-down of inventories in the profit or loss (included in "cost of sales") for the year ended 30 June 2011 (Note 8).

## 21. Debtors, Other Loans and Receivables, Deposits and Prepayments

At 30 June 2011, included in the Group's debtors, other loans and receivables, deposits and prepayments were trade debtors of HK$107,384,000 (2010: HK$113,970,000).

**(i)** The Group allows an average credit period of 90 days to its trade customers.

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **99,821** | 108,610 |
| 31 – 60 days | **5,682** | 4,533 |
| 61 – 90 days | **838** | 575 |
| Over 90 days | **1,043** | 252 |
| | **107,384** | 113,970 |

## 21. Debtors, Other Loans and Receivables, Deposits and Prepayments (continued)

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| At beginning of year | **5,919** | 15,338 |
| Impairment loss recognised | **901** | 3,271 |
| Reversal of allowance for doubtful debts | **(549)** | (1,178) |
| Uncollectible amounts written off | **(496)** | (5,934) |
| Disposal of subsidiaries | **–** | (5,579) |
| Exchange realignments | **74** | 1 |
| At end of year | **5,849** | 5,919 |

At 30 June 2011, the Group's trade debtors of HK$5,849,000 (2010: HK$5,919,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that none of the receivables is expected to be recovered. Consequently, specific and full allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

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

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **106,341** | 113,718 |
| Past due and not impaired | **1,043** | 252 |
| | **107,384** | 113,970 |

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 21. Debtors, Other Loans and Receivables, Deposits and Prepayments (continued)

**(v)** At 30 June 2011, included in debtors, other loans and receivables, deposits and prepayments were amounts due from financial institutions amounting to HK$9,555,000 (2010: HK$19,769,000) resulting from the net settlements of derivative financial instruments which were in the closed out positions at the end of reporting period.

**(vi) Due from related companies**

At 30 June 2011, included in the Group's debtors, other loans and receivables, deposits and prepayments were amounts due from related companies in the aggregate amount of HK$39,611,000 (2010: HK$24,504,000). Except for a loan receivable of HK$30,120,000 which was unsecured, interest-bearing at 6% per annum and repayable on 31 December 2011, the remaining aggregate balances of HK$9,491,000 are unsecured, interest-free and have no fixed terms of repayment. The maximum outstanding balance due from related companies during the year was HK$39,611,000. As at 30 June 2011, a director of the Company is a close family member of certain directors of the above related companies. As at 30 June 2010, a director of these related companies was a director of the Company.

## 22. Bills Receivable

As at 30 June 2011 and 2010, all bills receivable aged within 90 days.

## 23. Derivative Financial Assets/(Liabilities)

### Derivative not qualified for hedging

| | The Group | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **Assets** | **Liabilities** | Assets | Liabilities |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Copper future contracts | **806** | **–** | – | (11,766) |

*Copper future contracts*

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

| | **As at 30 June 2011** | As at 30 June 2010 |
|---|---|---|
| Quantities (in tonnes) | **9,655** | 4,455 |
| Average price per tonne | **US$9,483** | US$6,606 |
| Delivery period | **From July 2011 to February 2012** | From July 2010 to February 2011 |
| Fair value gain/(loss) of copper future contracts recognised as current assets/(liabilities) (in HK$'000) | **806** | (11,766) |

## 23. Derivative Financial Assets/(Liabilities) (continued)

### Derivative not qualified for hedging (continued)

*Copper future contracts (continued)*

The above derivatives are measured at fair values at the end of each reporting period and are with financial institutions. The fair values of copper future contracts are determined based on the quoted market prices at the end of reporting periods. The gain on change in fair value of derivative financial instruments of HK$21,802,000 (2010: loss of HK$3,500,000) has been recognised in profit or loss during the year.

## 24. Pledge of Assets

At 30 June 2011, the Group has pledged the following assets to secure general banking facilities granted to the Group. The carrying amounts of these assets are analysed as follows:

| | | The Group | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Property, plant and equipment | *15* | **110,748** | 121,619 |
| Prepaid lease payments for land | *16* | **94,314** | 94,870 |
| Bank deposits and bank balances | | **39,713** | 49,988 |
| | | **244,775** | 266,477 |

## 25. Bank Balances and Cash (Including the Pledged Balances)

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Bank balances and cash and pledged deposits were denominated in the following currencies: | | |
| Renminbi ("RMB") | **59,036** | 93,219 |
| HK$ | **97,792** | 157,005 |
| US$ | **60,725** | 16,223 |
| EUR | **3,105** | 785 |
| MT$ | **424** | – |
| | **221,082** | 267,232 |

## 25. Bank Balances and Cash (Including the Pledged Balances) (continued)

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Bank balances and cash were denominated in the following currencies: | | |
| HK$ | **84,781** | 118,157 |
| US$ | **11,012** | 1,002 |
| | **95,793** | 119,159 |

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

## 26. Creditors, Other Advances and Accrued Charges

At 30 June 2011, included in the Group's creditors, other advances and accrued charges were trade creditors of HK$21,423,000 (2010: HK$33,426,000).

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **17,437** | 20,572 |
| 31 – 60 days | **3,253** | 6,944 |
| 61 – 90 days | **392** | 3,234 |
| Over 90 days | **341** | 2,676 |
| | **21,423** | 33,426 |

## 27. Bills Payable

At 30 June 2011 and 2010, all bills payable aged within 90 days.

## 28. Obligations Under Finance Leases

| | The Group | | | |
|---|---|---|---|---|
| | Minimum lease payments | | Present value of minimum lease payments | |
| | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amounts payable under finance leases: | | | | |
| Within one year | **493** | 803 | **471** | 665 |
| In the second to fifth years inclusive | **287** | 780 | **284** | 755 |
| | **780** | 1,583 | | |
| Less: Future finance charges | **(25)** | (163) | | |
| Present value of lease obligations | **755** | 1,420 | **755** | 1,420 |
| Less: Amount due within one year | | | **(471)** | (665) |
| Amount due after one year | | | **284** | 755 |

It is the Group's policy to lease certain of its plant and machinery and motor vehicles under finance leases. The average lease term is 2 to 4 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates and the average effective borrowing rate was 4% (2010: 8%) per annum. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## 29. Borrowings

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Borrowings are secured, repayable within one year and are analysed as follows: | | |
| Bank loans | **–** | 114,503 |
| Trust receipt loans | **59,831** | 50,835 |
| | **59,831** | 165,338 |

## 29. Borrowings (continued)

The average effective interest rates of the bank borrowings range from 2.65% to 6.40% (2010: 4.60% to 9.35%) per annum.

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

At 30 June 2011, the Group had available HK$181,424,000 (2010: HK$45,271,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Details of the assets pledged for the Group's facilities are set out in Note 24. Certain borrowings are also secured by the Company's corporate guarantees.

## 30. Deferred Consideration Payable

In May 2006, the Company entered into an agreement with an independent third party, pursuant to which the Company agreed to acquire the entire issued share capital of Brascabos Componentes Elétricos e Eletrônicos Limitada ("Brascabos"), at a total consideration of US$10,000,000 (equivalent to HK$77,600,000), together with cash paid for expenses related to acquisition of HK$7,426,000 and the discount effect on deferred consideration of HK$4,179,000, the initial aggregate consideration was HK$80,847,000 and the consideration is payable by the Company on the following basis:

(i) part of the consideration amounting to HK$57,071,000 was satisfied by the Group in cash;

(ii) the remaining consideration of HK$20,529,000 would be repayable in four instalments as follows:

First instalment due in July 2007: US$20,490 (equivalent to HK$159,000)
Second instalment due in July 2008: US$875,000 (equivalent to HK$6,790,000)
Third instalment due in July 2009: US$875,000 (equivalent to HK$6,790,000)
Fourth instalment due in July 2010: US$875,000 (equivalent to HK$6,790,000)

The above transaction was completed on 2 August 2006.

The fair value of the deferred consideration of HK$16,350,000 was determined by discounting the amounts payable of HK$20,529,000 to their present value at a discount rate of 8% per annum.

The consideration has been fully paid during the year.

## 31. Deferred Tax

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

| | The Group | | | |
|---|---|---|---|---|
| | **Accelerated tax depreciation** | **Properties** | **Others** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 July 2009 | 19,247 | 7,386 | (352) | 26,281 |
| Exchange realignment | 189 | 85 | (38) | 236 |
| Credit to profit or loss for the year *(Note 11)* | (2,244) | (392) | – | (2,636) |
| Disposal of subsidiaries *(Note 36)* | (698) | – | 390 | (308) |
| At 30 June 2010 | 16,494 | 7,079 | – | 23,573 |
| Exchange realignment | 469 | 336 | – | 805 |
| Charge to profit or loss for the year *(Note 11)* | (1,690) | (415) | – | (2,105) |
| **At 30 June 2011** | **15,273** | **7,000** | **–** | **22,273** |

For the purpose of presentation of consolidated statement of financial position, certain of the above deferred tax assets and liabilities have been set off. The remaining amounts are presented in the consolidated statement of financial position as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Deferred tax liabilities | **22,273** | 23,573 |

At 30 June 2011, the Group has unused tax losses of HK$133,000,000 (2010: HK$142,556,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Tax losses of HK$95,968,000 (2010: HK$107,638,000) may be carried forward indefinitely and the remaining amount of HK$37,032,000 (2010: HK$34,918,000) would expire in five years from the respective dates of incurrence.

At 30 June 2011 and 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that the subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with interests in subsidiaries in Mainland China for which deferred tax assets have not been recognised is in total of approximately HK$10,865,000 (2010: HK$12,895,000).

## 32. Convertible Bond

### The Group and the Company

On 4 May 2010, the Company issued a convertible bond with principal amount of HK$1,432,000,000 as part of the purchase consideration for the acquisition of subsidiaries, further details of which are set out in Note 35. The convertible bond bears zero coupon interest and has maturity date of 36 months from date of issue with a right to convert at a maximum of 9,546,666,667 shares of the Company at conversion price of HK$0.15 per share. As detailed in the Company's announcement dated 4 May 2010, the conversion price of the convertible bond was reset to HK$0.10 and accordingly the maximum number of shares that can be converted was adjusted to 14,320,000,000. Unless previously converted, the convertible bond will mature and will be redeemed by the Company at par on the maturity date. Other principal terms of the convertible bond are set out below:

(1) Subject to the conversion restrictions (as described in (3) below), convertible bond holder shall have the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the convertible bond registered in its name into shares and provided further that any conversion shall be made in amounts of not less than a whole multiple of HK$1,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the convertible bond is less than HK$1,000,000, the whole (but not part only) of the outstanding principal amount of the convertible bond may be converted. This option of the convertible bond holder is referred to the Call Option.

(2) Subject to the conversion restriction (as described in (3) below), the Company has the right to require the convertible bond holder to mandatorily convert any convertible bond remaining outstanding at the maturity date into conversion shares at the then applicable conversion price. This option of the Company as the issuer of the convertible bond is referred to the Put Option.

(3) The convertible bond may not be converted to the extent that, following such conversion, a holder of the convertible bond, together with its concert parties, would directly or indirectly control or be interested in an aggregate of 29.9% or more of the issued shares immediately following the issue of the relevant conversion shares (or such other amount as may from time to time be specified in The Code on Takeovers and Mergers as being the level for triggering a mandatory general offer), or if a holder of the convertible bond would otherwise be obliged to make a general offer for the issued shares under Rule 26 of The Code on Takeovers and Mergers.

The exercise of conversion options embedded in the convertible bond would not result in settlement by the exchange of a fixed amount of cash for a fixed number of shares of the Company. The embedded derivatives of conversion options are therefore accounted for as a financial asset and liability in respect of the Put Option and the Call Option respectively. The principal of HK$1,432,000,000 with initial recognition of fair value at HK$1,081,526,000 of the convertible bond has been split into liability and derivative components. On issue of the convertible bond, the fair values of the derivative components were determined using an option pricing model and the amounts were carried as derivative component of an asset (the Put Option) and liability (the Call Option) until extinguished on conversion or redemption of the convertible bond. The liability component was initially recognised at fair value based on a discount rate of 10.36% per annum and was carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative components were measured at respective fair values on the issue date and any subsequent changes in fair value of the derivative components at the end of reporting period were recognised in profit or loss.

## 32. Convertible Bond (continued)

### The Group and the Company (continued)

During the current year, principal amount of HK$1,332,000,000 (2010: HK$100,000,000), in aggregate, of the convertible bond was converted into shares of the Company. The conversion gave rise to the issue of 13,320,000,000 (2010: 1,000,000,000) shares of HK$0.10 each of the Company (Note 33 (iv)) and derecognition in carrying value of liability component by HK$1,017,082,000 (2010: HK$75,410,000) and derecognition in carrying values of the Call Option and the Put Option by HK$27,269,000 (2010: HK$2,925,000) and HK$608,242,000 (2010: HK$9,000,000), respectively.

As at 30 June 2011, the convertible bond has been fully converted. Details of the conversions are set out in Note 33 (iv).

*Note:* During the year, the net fair value of the derivative components of the convertible bond increased and resulted in an aggregate fair value gain of HK$462,158,000 (2010: HK$141,344,000).

| | **Liability component of convertible bond**<br>*HK$'000* | **The Call Option**<br>*HK$'000* | **The Put Option**<br>*HK$'000* | **Total**<br>*HK$'000* |
|---|---|---|---|---|
| Liability/(asset) at issue date | 1,065,072 | 92,145 | (75,691) | 1,081,526 |
| Issue of shares upon conversion of convertible bond *(Note 33 (iv))* | (75,410) | (2,925) | 9,000 | (69,335) |
| Fair value gain | – | (66,954) | (74,390) | (141,344) |
| Effective interest expense recognised *(Note 10)* | 16,693 | – | – | 16,693 |
| Liability/(asset) at 30 June 2010 | 1,006,355 | 22,266 | (141,081) | 887,540 |
| Issue of shares upon conversion of convertible bond *(Note 33 (iv))* | (1,017,082) | (27,269) | 608,242 | (436,109) |
| Fair value loss/(gain) | – | 5,003 | (467,161) | (462,158) |
| Effective interest expense recognised *(Note 10)* | 10,727 | – | – | 10,727 |
| **Liability/(asset) at 30 June 2011** | **–** | **–** | **–** | **–** |

Imputed interest on the convertible bond for the year ended 30 June 2011 is calculated using the effective interest method by applying the effective interest rate of 9.91% (2010: 9.91%) per annum.

## 32. Convertible Bond (continued)

### The Group and the Company (continued)

The fair values of the derivative components of the convertible bond are determined taking into account the valuation performed by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professionally qualified valuers, using the Binomial Model with the major inputs as at respective conversion dates during the year are as follows:

| | Conversion dates | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2 July 2010** | **13 July 2010** | **15 July 2010** | **20 July 2010** | **27 July 2010** | **30 July 2010** | **5 August 2010** | **2 September 2010** | **9 September 2010** |
| Share price | HK$0.046 | HK$0.037 | HK$0.025 | HK$0.023 | HK$0.026 | HK$0.030 | HK$0.025 | HK$0.023 | HK$0.022 |
| Exercise price | HK$0.100 | HK$0.100 | HK$0.100 | HK$0.100 | HK$0.100 | HK$0.100 | HK$0.100 | HK$0.100 | HK$0.100 |
| Volatility | 83% | 84% | 84% | 85% | 86% | 86% | 86% | 88% | 88% |
| Risk-free rate | 1.03% | 0.91% | 0.83% | 0.74% | 0.71% | 0.67% | 0.60% | 0.53% | 0.53% |

## 33. Share Capital

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***'000*** | *'000* | ***HK$'000*** | *HK$'000* |
| Ordinary shares of HK$0.01 each: | | | | |
| Authorised *(Note (i))* | **50,000,000** | 30,000,000 | **500,000** | 300,000 |
| Increase of authorised ordinary shares *(Note (i))* | **–** | 20,000,000 | **–** | 200,000 |
| | **50,000,000** | 50,000,000 | **500,000** | 500,000 |
| Issued and fully paid: | | | | |
| At beginning of the year | **4,705,660** | 3,168,451 | **47,056** | 31,685 |
| Capital reorganisation *(Note (i))* | **(23,964,377)** | (2,534,761) | **(239,643)** | (25,348) |
| Placements of new shares *(Note (ii))* | **7,200,000** | 2,940,730 | **72,000** | 29,407 |
| Exercise of share options *(Note (iii))* | **–** | 131,240 | **–** | 1,312 |
| Issue of shares upon conversion of convertible bond *(Note (iv))* | **13,320,000** | 1,000,000 | **133,200** | 10,000 |
| At end of the year | **1,261,283** | 4,705,660 | **12,613** | 47,056 |

## 33. Share Capital (continued)

*Notes:*

(i) In the prior year, pursuant to an ordinary resolution passed at the special general meeting of the Company held on 9 July 2009, a capital reorganisation was effected such that the authorised share capital of the Company remained at HK$300,000,000 being represented by 30,000,000,000 shares. The capital reorganisation involved (i) share consolidation of every 5 shares of HK$0.01 each into 1 consolidated share of HK$0.05 each; (ii) capital reduction for each issued consolidated share from HK$0.05 each to HK$0.01 each by cancellation of HK$0.04 each on each issued consolidated share; and (iii) sub-division of each of the authorised but unissued consolidated share into 5 ordinary shares of HK$0.01 each.

The credit arising from the capital reduction of HK$25,348,000 was transferred to the contributed surplus account of the Company during the prior year.

In addition, pursuant to an ordinary resolution passed at the special general meeting of the Company held on 27 April 2010, the authorised share capital of the Company was increased from HK$300,000,000 to HK$500,000,000 and the number of authorised shares was also increased from 30,000,000,000 shares to 50,000,000,000 shares.

During the current year, pursuant to a resolution passed at the special general meeting of the Company held on 1 June 2011, a capital reorganisation was effected such that the authorised share capital of the Company remains at HK$500,000,000 being represented by 50,000,000,000 shares. The capital reorganisation involved (i) share consolidation of every 20 issued shares of HK$0.01 each into 1 consolidated share of HK$0.20 each; and (ii) capital reduction for each issued consolidated share from HK$0.20 each to HK$0.01 each by cancellation of HK$0.19 each on each issued consolidated share.

The credit arising from the capital reduction of HK$239,643,000 was transferred to the contributed surplus account and immediately offset the same amount of accumulated losses of the Company.

(ii) During the year, aggregate number of 7,200,000,000 (2010: 2,940,730,000) new ordinary shares of par value of HK$0.01 (2010: HK$0.01) each were issued at subscription price of HK$0.02 each (2010: ranging from HK$0.100 each to HK$0.220 each) to the then independent third parties of the Company at aggregate proceeds of HK$140,317,000 (2010: HK$325,444,000), net of issuing expenses, of which HK$72,000,000 (2010: HK$29,407,000) was credited to share capital and the remaining balance of HK$68,317,000 (2010: HK$296,037,000) was credited to the share premium account.

(iii) During the prior year, 131,240,000 new ordinary shares of par value of HK$0.01 each were issued at option prices of HK$0.0904 each on exercise of 131,240,000 (Note 40) share options at aggregate proceeds of HK$11,864,000, net of issuing expenses, of which HK$1,312,000 was credited to share capital and the remaining balance of HK$10,552,000 was credited to the share premium account. In addition, an amount attributable to the related share options of HK$3,996,000 was transferred from share option reserve to the share premium account.

(iv) During the year, an aggregate number of 13,320,000,000 (2010: 1,000,000,000) new ordinary shares of par value of HK$0.01 (2010: HK$0.01) each were issued at a conversion price of HK$0.10 (2010: HK$0.10) each on exercise of conversion option of the convertible bond, resulting in recognition of the net aggregate amount derivative components and the liability component of the convertible bond, at the respective dates of conversions of in aggregate approximately HK$436,109,000 (2010: HK$69,335,000) (Note 32). The conversions gave rise to a credit to share capital of HK$133,200,000 (2010: HK$10,000,000) and the remaining balance of HK$302,360,000 (2010: HK$59,335,000), net of issuing expenses of HK$549,000, were credited to the share premium account.

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

## 34. Reserves of the Company

| | Share premium HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 July 2009 | 274,304 | 738,559 | 667 | (744,680) | 268,850 |
| Placements of new shares *(Note 33)* | 296,037 | – | – | – | 296,037 |
| Issue of shares upon conversion of convertible bond *(Note 33)* | 59,335 | – | – | – | 59,335 |
| Issue of shares upon exercise of share options *(Note 33)* | 10,552 | – | – | – | 10,552 |
| Recognition of equity-settled share-based payments *(Note 40)* | – | – | 3,996 | – | 3,996 |
| Transactions with owners | 365,924 | – | 3,996 | – | 369,920 |
| Profit and total comprehensive income for the year | – | – | – | 45,711 | 45,711 |
| Capital reorganisation *(Note 33)* | – | 25,348 | – | – | 25,348 |
| Transfer upon exercise of share options *(Note 33)* | 3,996 | – | (3,996) | – | – |
| Cancellation and lapse of share options | – | – | (667) | 667 | – |
| At 30 June 2010 and 1 July 2010 | 644,224 | 763,907 | – | (698,302) | 709,829 |
| Placement of new shares *(Note 33)* | 68,317 | – | – | – | 68,317 |
| Issue of shares upon conversion of convertible bond *(Note 33)* | 302,360 | – | – | – | 302,360 |
| Transactions with owners | 370,677 | – | – | – | 370,677 |
| Profit and total comprehensive income for the year | – | – | – | 38,082 | 38,082 |
| Capital reorganisation *(Note 33)* | – | – | – | 239,643 | 239,643 |
| **At 30 June 2011** | **1,014,901** | **763,907** | **–** | **(420,577)** | **1,358,231** |

*Notes:*

The contributed surplus represented (i) the net balance after setting off accumulated losses of the Company as at 1 April 2002 from reduced share capital and cancelled share premium of the Company in accordance with the Company's capital reorganisation in September 2002; and (ii) the credit arising from the capital reduction in accordance with the Company's capital reorganisation in July 2009 as detailed in Note 33 (i).

The share option reserve represented the grant-date fair value of the actual or estimated number of unexercised outstanding share options granted to the eligible parties.

## 35. Acquisition of Subsidiaries

On 10 November 2009, the Company entered into a sale and purchase agreement with a vendor and Mr. Liu Yong as the vendor's guarantor, pursuant to which the Company has conditionally agreed to acquire from the vendor the entire issued share capital of Sun Progress Limited, a company incorporated in the British Virgin Islands and is wholly-owned by the vendor, which holds a mining licence in respect of a copper-gold-silver mine located in the State of Mongolia through its wholly-owned subsidiary, Ikh Shijir Erdene LLC ("ISE"), a company incorporated in the State of Mongolia with limited liability (the "Acquisition"). The consideration payable under the sale and purchase agreement is HK$1,500,000,000 and was satisfied by the Company at the completion of the Acquisition as to (i) HK$68,000,000 in cash; and (ii) HK$1,432,000,000 by the issue of convertible bond by the Company to the vendor with initial recognition of net carrying value of HK$1,081,526,000 (Note 32). The Acquisition was completed on 4 May 2010, further details of which are set out in the Company's announcements dated 30 November 2009 and 4 May 2010 and circular dated 9 April 2010. Details of the principal terms of the Company's convertible bond are set out in Note 32.

Under Hong Kong Financial Reporting Standard 3 (revised) "Business Combinations" ("HKFRS 3"), an entity shall determine whether a transaction or other event is a business combination by applying the definition in HKFRS 3, which requires that the assets acquired and liabilities assumed constitute a business. Given the fact that both Sun Progress Limited and ISE were not involved in any mining activity up to the completion date of the Acquisition, the Acquisition is not considered as a business combination under the definition of HKFRS 3 by the directors of the Company and is therefore considered as an acquisition of asset – principally the mining right only. In this regard, the initial measurement of assets and liabilities acquired would be the allocation of consideration based on their relative fair values. Further details of the intangible asset arising from the mining right of ISE are set out in Note 17.

Total cash outflow for the Acquisition during the prior year was HK$83,887,000 representing (i) payment of HK$68,000,000 in cash; and (ii) direct costs incurred for the Acquisition of HK$15,887,000.

## 36. Disposal of Subsidiaries

On 19 November 2010, the Group entered into a conditional sale and purchase agreement with a purchaser in relation to the disposal of its entire equity interest in Jingjiang Hua Ling Copper Products Co., Limited ("Jingjiang"), a then wholly-owned subsidiary of the Company, for a cash consideration of RMB4,500,000, equivalent to approximately HK$5,173,000. The disposal has been completed during the year.

The disposed net assets of Jingjiang at the date of disposal are summarised as follows:

| | *Note* | *HK$'000* |
|---|---|---|
| Net assets disposed of: | | |
| Prepaid lease payments for land | *16* | 4,345 |
| Debtors, other loans and receivables, deposits and prepayments | | 194 |
| Bank balances and cash | | 22 |
| Net identifiable assets and liabilities | | 4,561 |
| Reclassification adjustment of exchange reserves upon disposal | | (4,683) |
| Gain on disposal of a subsidiary | | 5,295 |
| Total consideration | | 5,173 |
| Consideration satisfied by: | | |
| Cash consideration | | 5,173 |
| Net cash inflow arising on disposal: | | |
| Cash consideration | | 5,173 |
| Bank balances and cash | | (22) |
| | | 5,151 |

## 36. Disposal of Subsidiaries (continued)

On 31 December 2009, the Group entered into a conditional sale and purchase agreement with a purchaser in relation to the disposal of its entire equity interest in New Universe Investments Limited, a then indirect wholly-owned subsidiary of the Company, and its subsidiaries (collectively the "Disposal Group") for a cash consideration of HK$30,000,000. The Disposal Group constituted the Group's connectors and terminals segment. Details of the Disposal were set out in the announcement and circular of the Company dated 8 January 2010 and 9 April 2010 respectively and it was completed on 30 April 2010.

The disposed net assets of the Disposal Group at the date of disposal are summarised as follows:

| | *Notes* | *HK$'000* |
|---|---|---|
| Net assets disposed of: | | |
| Property, plant and equipment | *15* | 67,662 |
| Prepaid lease payments for land | *16* | 7,140 |
| Goodwill | | 23,389 |
| Inventories | | 94,451 |
| Debtors, other loans and receivables, deposits and prepayments | | 191,002 |
| Bills receivable | | 625 |
| Tax recoverable | | 1,988 |
| Bank balances and cash | | 22,066 |
| Creditors, other advances and accrued charges | | (160,443) |
| Obligations under finance leases | | (2,750) |
| Taxation | | (5,052) |
| Deferred tax liabilities | *31* | (308) |
| Net identifiable assets and liabilities | | 239,770 |
| Reclassification adjustment of exchange reserves upon disposal | | (16,673) |
| Direct costs incurred for the Disposal | | 4,044 |
| Loss on disposal of subsidiaries | | (197,141) |
| Total consideration | | 30,000 |
| Consideration satisfied by: | | |
| Cash consideration | | 30,000 |
| Net cash inflow arising on disposal: | | |
| Cash consideration | | 30,000 |
| Bank balances and cash | | (22,066) |
| | | 7,934 |

## 37. Capital Commitments

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of: | | |
| Plant and machinery | **–** | 8,400 |
| Capital expenditure authorised but not contracted for in respect of acquisition of: | | |
| Motor vehicle | **6,880** | – |

## 38. Lease Commitments

### The Group as lessee

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **200** | 600 |
| In the second to fifth years inclusive | **–** | 200 |
| | **200** | 800 |

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

## 39. Major Non-Cash Transactions

As disclosed in Note 15, additions to property, plant and equipment of the Group financed by new finance leases were HK$Nil (2010: HK$1,391,000) during the year.

## 40. Share Option Scheme

The Company's share option scheme was adopted pursuant to a resolution passed on 16 September 2002 (the "Share Option Scheme") for the primary purpose of providing incentives to directors and eligible employees and others providing similar services of employees, and will expire on 15 September 2012. Under the Share Option Scheme, the board of directors of the Company may grant options to eligible employees and others providing similar services, including directors, of the Company and any of its subsidiaries and associates, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties with a view to maintain business relationship with such persons.

The total number of shares in respect of which options may be granted under the Share Option 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 total number of shares in respect of which options 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. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant together with a payment of HK$1 as consideration of grant. Options may be exercised at any time from the date of grant to the tenth anniversary of the date of the grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five trading days immediately preceding the date of grant, and the nominal value of a share.

During the prior year, equity-settled share-based payments of HK$3,996,000 was recognised in profit or loss.

The following table discloses movements in the Company's Share Option Scheme.

| | | | | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Capacity | Date of grant | Exercisable period | Vesting period | Exercise price HK$ | Outstanding at 1.7.2009 '000 | Granted during the year '000 | Exercised during the year '000 (Note 33 (iii)) | Capital reorganisation during the year '000 (Note 33 (i)) | Lapsed/ cancelled during the year '000 | Outstanding at 30.6.2010 and 30.6.2011 '000 |
| Employee | 8 June 2009 | 9 June 2009 to 8 July 2011 | Immediate on the grant date | 0.395* | 30,180 | – | – | (24,144) | (6,036) | – |
| Others | 27 May 2010 | 28 May 2010 to 27 May 2012 | Immediate on the grant date | 0.0904 | – | 131,240 | (131,240) | – | – | – |
| | | | | | 30,180 | 131,240 | (131,240) | (24,144) | (6,036) | – |

* The exercise of the share options was adjusted from HK$0.079 to HK$0.395 pursuant to the capital reorganisation during the prior year (Note 33 (i)).

## 40. Share Option Scheme (continued)

The weighted average closing price of the Company's shares immediately before the date on which share options were exercised during the prior year was HK$0.0880.

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

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

## 41. Retirement Benefits Scheme

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

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

The Group is required to contribute to central pension schemes in respect of certain of the Group's employees in other Asian regions and America at rates specified in the rules of the schemes.

The retirement benefits cost charged to profit or loss represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

During the year, the Group made retirement benefits schemes contributions of HK$4,128,000 (2010: HK$5,951,000).

## 42. Related Party Transactions

In addition to the transactions detailed elsewhere in these financial statements, the Group entered into the following transactions with related companies:

| **Related party relationship** | **Type of transaction** | **The Group** | |
|---|---|---|---|
| | | **2011** | 2010 |
| | | ***HK$'000*** | *HK$'000* |
| Company in which a close family member of a director of the Company is a director | Rental income on leases of motor vehicles | **1,276** | – |
| Company in which a close family member of a director of the Company is a director | Loan interest income | **1,372** | – |
| Company in which a director of the Company is a director | Sale of property, plant and equipment | **340** | 200 |

## 42. Related Party Transactions (continued)

Further details of connected transactions of the Group are set out in the directors' report.

During the prior year, the Group purchased goods from and sold goods to related companies in the amounts of HK$58,758,000 and HK$1,266,000 respectively. During the prior year, a director of these related companies was a director of the Company.

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

### Compensation of key management personnel of the Group

Members of key management personnel of the Group during the year comprised only of the directors whose remuneration is set out in Note 9.

## 43. Contingent Liabilities

During the year, certain subsidiaries of the Company (collectively the "Chau's") and other unrelated parties are named as joint defendants in a lawsuit brought by a number of plaintiffs, and alleges that the Chau's is causally related to its electrical cord incorporated within certain air-conditioning units, which were involved in fires, resulting in deaths and personal injuries. No amount of claim was ascertained as of the date of this annual report. On 29 August 2011, the Chau's legal counsel filed an appearance and responsive pleading and vigorously defended the Chau's in response to the First Amended Complaint for Damages received from the plaintiffs' counsel.

In addition, the Chau's and one of its customers were sued in another lawsuit by a number of plaintiffs, who alleges deaths and personal deaths from a fire incident proximately related to its electrical cords incorporated within certain air-conditioning units. In November 2010, the plaintiffs demanded US$10,000,000 to settle the case which was disagreed by the Chau's. On 19 May 2011, the plaintiffs amended the settlement demand at US$4,000,000 (the "Demand"). The Chau's is in the process to defend itself against the Demand.

The allegations of liability, as against the Chau's, for the above matters have been denied and are contested. The Chau's have been retained by its product liability insurer who will pay any related legal costs and expenses.

According to legal advice from legal counsel of the Chau's, up to the date of this annual report, the above cases are still in the discovery stage and hence it is premature to determine the probable outcome, responsibility and liability to the Chau's.

## 44. Capital Risk Management

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

The capital structure of the Group consists of debts, which includes the liability component of convertible bond in Note 32, borrowings disclosed in Note 29, obligations under finance leases disclosed in Note 28, bank balances and cash disclosed in Note 25 and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in the consolidated statement of changes in equity.

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of management, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or redemption of existing debts.

The gearing ratio at the end of reporting period was as follows:

| | **The Group** | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Debts | **60,586** | 1,173,113 |
| Cash and cash equivalents | **(221,082)** | (267,232) |
| Net debts | **(160,496)** | 905,881 |
| Equity | **1,831,860** | 902,072 |
| Net debts to equity ratio | **N/A** | 100% |

## 45. Summary of Financial Assets and Financial Liabilities by Category

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 30 June 2011 and 2010 may be categorised as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | |
| Loans and receivables (including bank balances and cash) at amortised cost | **442,008** | 502,452 |
| Derivative financial assets at fair value (including derivative component of convertible bond) | **806** | 141,081 |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost | **201,720** | 1,363,324 |
| Derivative financial liabilities at fair value (including derivative component of convertible bond) | **–** | 34,032 |

## 46. Events After Reporting Period

**(i)** On 5 July 2011, the Group entered into a sale and purchase agreement with a vendor (the "Vendor") pursuant to which the Group has conditionally agreed to acquire from the Vendor its 10% equity interest in Venture Max Limited ("VML"), a company incorporated in the British Virgin Islands which holds mining and exploration licences in the State of Mongolia through Mongolian Copper Mining LLC, VML's wholly-owned subsidiary incorporated in the State of Mongolia (the "Proposed Acquisition"). The consideration of the Proposed Acquisition is HK$100,000,000 while the completion of the Proposed Acquisition is subject to fulfilment of several conditions. Details of the Proposed Acquisition are set out in the Company's announcement dated 5 July 2011.

**(ii)** On 13 July 2011, the Company and a placing agent entered into a placing agreement pursuant to which the Company has conditionally agreed to place through the placing agent up to 504,510,000 placing shares at subscription price of HK$0.2 each (the "Proposed Placing"). The aggregate proceeds from the Proposed Placing will be approximately HK$100,902,000, before issuing expenses. The Proposed Placing has been duly passed by a resolution in a special general meeting on 15 August 2011, further details of which are set out in the circular dated 28 July 2011 and announcements of the Company dated 13 July 2011 and 15 August 2011 respectively.

# FINANCIAL SUMMARY

## Results

### The Group

| | **Year ended 30 June 2011 *HK$'000*** | Year ended 30 June 2010 *HK$'000* | Year ended 30 June 2009 *HK$'000* | Year ended 30 June 2008 *HK$'000* | Year ended 30 June 2007 *HK$'000* |
|---|---|---|---|---|---|
| Turnover | **707,535** | 1,404,280 | 1,136,945 | 3,493,526 | 3,859,828 |
| Profit/(loss) before taxation | **356,702** | (106,305) | (450,614) | 48,643 | 1,007 |
| Taxation | **1,522** | (32,355) | (20,391) | (24,190) | (5,923) |
| Profit/(loss) for the year | **358,224** | (138,660) | (471,005) | 24,453 | (4,916) |
| Profit/(loss) attributable to: | | | | | |
| Owners of the Company | **358,224** | (138,660) | (470,900) | 19,847 | 782 |
| Non-controlling interests | **–** | – | (105) | 4,606 | (5,698) |
| | **358,224** | (138,660) | (471,005) | 24,453 | (4,916) |

## Assets and liabilities

| | **At 30 June 2011 *HK$'000*** | At 30 June 2010 *HK$'000* | At 30 June 2009 *HK$'000* | At 30 June 2008 *HK$'000* | At 30 June 2007 *HK$'000* |
|---|---|---|---|---|---|
| Total assets | **2,055,907** | 2,323,348 | 1,110,281 | 1,711,043 | 2,434,169 |
| Total liabilities | **(224,047)** | (1,421,276) | (484,281) | (624,938) | (1,297,543) |
| | **1,831,860** | 902,072 | 626,000 | 1,086,105 | 1,136,626 |
| Attributable to: | | | | | |
| Owners of the Company | **1,831,360** | 901,572 | 625,500 | 1,083,402 | 942,554 |
| Non-controlling interests | **500** | 500 | 500 | 2,703 | 194,072 |
| | **1,831,860** | 902,072 | 626,000 | 1,086,105 | 1,136,626 |