



IR RESOURCES LIMITED

*(Incorporated in Bermuda with limited liability)
(formerly known as China Asean Resources Limited)*

(Stock Code: 8186)



2012 Annual Report





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

GEM is positioned as a market designed to accommodate companies to which a higher investment risk may be attached other than companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of IR Resources Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to IR Resources Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and beliefs: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



Contents

| | |
|-----|------------------------------------------------|
| 3 | Corporate Information |
| 4 | Chairperson's Statement |
| 5 | Management Discussion and Analysis |
| 8 | Biographical Details of Directors |
| 10 | Report of the Directors |
| 16 | Corporate Governance Report |
| 19 | Independent Auditors' Report |
| 24 | Consolidated Statement of Profit or Loss |
| 25 | Consolidated Statement of Comprehensive Income |
| 26 | Consolidated Statement of Financial Position |
| 27 | Consolidated Statement of Changes in Equity |
| 28 | Consolidated Statement of Cash Flows |
| 30 | Statement of Financial Position |
| 31 | Notes to the Consolidated Financial Statements |
| 100 | Five Years Financial Summary |

Corporate Information

BOARD OF DIRECTORS

Executive Directors

YU Xiao Min (*Chairperson*) (appointed on 7 February 2012)
XU Miaoxia (appointed on 14 May 2015)
ZENG Lingchen
CHULTEMSUREN (resigned on 14 May 2015)
Gankluyag
GONG Ting (resigned on 4 September 2014)
LEUNG Sze Yuan, Alan (resigned on 28 March 2015)

Independent Non-executive Directors

PANG King Sze, Rufina (appointed on 4 September 2014)
HONG Bingxian (appointed on 8 October 2012)
HUNG Kenneth (appointed on 28 March 2015)
TAM Wai Leung, Joseph (resigned on 8 October 2012)
WEN Huiying (resigned on 28 March 2015)
ZHANG Ying (resigned on 4 September 2014)

AUDIT COMMITTEE

PANG King Sze, Rufina (appointed on 4 September 2014)
(*Chairperson*)
HONG Bingxian (appointed on 8 October 2012)
HUNG Kenneth (appointed on 28 March 2015)
TAM Wai Leung, Joseph (resigned on 8 October 2012)
WEN Huiying (resigned on 28 March 2015)
ZHANG Ying (resigned on 4 September 2014)

NOMINATION COMMITTEE

PANG King Sze, Rufina (appointed on 4 September 2014)
(*Chairperson*)
HONG Bingxian (appointed on 8 October 2012)
YU Xiao Min (appointed on 28 March 2015)
TAM Wai Leung, Joseph (resigned on 8 October 2012)
LEUNG Sze Yuan, Alan (resigned on 28 March 2015)
ZHANG Ying (resigned on 4 September 2014)

REMUNERATION COMMITTEE

PANG King Sze, Rufina (appointed on 4 September 2014)
(*Chairperson*)
HONG Bingxian (appointed on 8 October 2012)
YU Xiao Min (appointed on 28 March 2015)
TAM Wai Leung, Joseph (resigned on 8 October 2012)
LEUNG Sze Yuan, Alan (resigned on 28 March 2015)
ZHANG Ying (resigned on 4 September 2014)

COMPLIANCE OFFICERS

YU Xiao Min (appointed on 4 September 2014)
GONG Ting (resigned on 4 September 2014)

COMPANY SECRETARY

FUNG Wing Sang (appointed on 31 May 2015)
CHUNG Ka King (appointed on 19 September 2014
and resigned on 31 May 2015)
CHAN Chiu Hung, Alex (appointed on 9 August 2013
and resigned on 19 September
2014)
LAM Kam Ming, Simon (resigned on 9 August 2013)
LEUNG Ka Wai (resigned on 12 March 2012)

BERMUDA ASSISTANT SECRETARY

Appleby Services (Bermuda) Ltd.

AUDITORS

Ascenda Cachet CPA Limited (appointed on 8 March 2013)
Certified Public Accountants
KLC Kennic Lui & Co. Ltd. (resigned on 8 March 2013)
Certified Public Accountants

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

36th Floor, Times Tower
391-407 Jaffe Road
Wanchai, Hong Kong

REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Ltd.
Rooms 1712-16, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

PRINCIPAL BANKERS

ANZ Royal Bank (Cambodia) Limited
Bank of China (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited

STOCK CODE

8186

WEBSITE ADDRESS

www.irresources.com.hk



Chairperson's Statement

Dear Shareholders and Partners,

On behalf of the board (the "Board") of directors (the "Directors") of IR Resources Limited (the "Company", formerly known as "China Asean Resources Limited"), I would like to present the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012.

Due to the delay in the publication of the Group's audited financial results for the year ended 31 December 2012, trading in the shares (the "Shares") of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since April 2013. Since then, the management of the Company has been making effort for resumption of trading in the Shares.

I, on behalf of the Board, would like to take this opportunity to thank our shareholders for your support and express my gratitude to our partners, management and staff for your effort and contribution to re-activate the Group's businesses and resume trading in the Shares.

Yu Xiao Min

Chairperson

Hong Kong, 24 February 2016

Management Discussion and Analysis

OVERVIEW

The Group is principally engaged in (i) forestry and agricultural business in the Kingdom of Cambodia (“Cambodia”) (logging of existing trees from and subsequent plantation of rubber trees or other agricultural produce on the three forests (the “Three Forests”) for which the Group has been granted the exploitation concession right (the “Economic Land Concessions”) and the subsequent sale of wood products); and (ii) resources and logistics business.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2012, the Group recorded revenue of HK\$6.3 million (2011: HK\$0.2 million).

Gross Profit

For the year ended 31 December 2012, the Group recorded a gross profit of HK\$1.2 million (2011: HK\$0.1 million).

Loss for the year

The consolidated loss and loss attributable to its equity holders amounted to HK\$600.1 million for the year ended 31 December 2012 (2011: HK\$61.3 million). The increase in the loss for the year was mainly attributable to (i) the impairment loss on and the adjustment on the amortisation method of the Group’s forest exploitation right on the Three Forests, (ii) the impairment on the biological assets and the goodwill arising from its resources and logistics business.

Basic and diluted loss per Share for the year was HK22.87 cents (2011: HK3.22 cents).

EVENTS AFTER THE REPORTING PERIOD

Subscription Agreement

In 7 July 2015, the Company entered into a subscription agreement (and subsequently a supplemental agreement on 30 September 2015) (collectively, the “Subscription Agreement”) with six subscribers (the “Subscribers”) who have business connection and experience in the forestry business in Asia, pursuant to which the Company will undergo an internal restructuring (the “Restructuring”). As at the date of this annual report, the Subscription Agreement had not been completed. Details of the Subscription Agreement and the Restructuring are disclosed in the Company’s announcements dated 17 July and 30 September 2015.

Plantation Cooperation Agreement

In November 2015, the Group entered into a cooperation agreement (the “Plantation Cooperation Agreement”) with an experienced plantation operator (the “Plantation Partner”), which has substantial experience in the business of plantation and has operations in Southeast Asia. Pursuant to the Plantation Cooperation Agreement, the Plantation Partner will be engaged in the plantation business of the Group and, together with the relevant Subscribers (the “Plantation Subscribers”), will provide funding for the plantation business of the Group.

Rights issue

On 24 February 2016, the Company entered into an underwriting agreement with an underwriter to raise fund of approximately HK\$262 million (before expenses) by way of a rights issue, which, subject to fulfillment of certain conditions precedent pursuant to the underwriting agreement, is expected to be completed in May 2016, for the purposes of general working capital and debt repayment.

Impairment on the Three Forests

Due to the failure of the Group’s operation of the timber logging and plantation of the Three Forests in the past years (including the service agreement and the subconcession agreement entered into in 2008), the Group has made substantial impairment on its Three Forests assets.

Management Discussion and Analysis

Suspension in trading in the Share

Trading in the Shares has been suspended since April 2013 and will remain suspended pending the fulfillment of the resumption conditions.

PROSPECTS

Looking forward, the Group will (i) continue to implement strategies to strengthen its forestry and agricultural business and (ii) seize appropriate investment/business in its resources and logistics business as well as debt/equity fund raising opportunities so as to enhance the financial condition of the Group for continuous development.

CAPITAL STRUCTURE

As at 31 December 2012, the total number of issued ordinary shares and the issued share capital of the Company were 2,623,950,965 (2011: 2,623,950,965) and HK\$131,198,000 (2011: HK\$131,198,000), respectively. During the year ended 31 December 2012, the Company did not issue any new Shares.

FINANCIAL RESOURCES, BORROWINGS, BANKING FACILITIES AND LIQUIDITY

During the year ended 31 December 2012, the net cash inflow from operating activities amounted to HK\$3.3 million (2011: outflow of HK\$43.0 million) and the net cash used in investing activities amounted to HK\$12.7 million (comprising mainly the purchase of biological assets (e.g. rubber seedlings)) (2011: HK\$57.0 million) and net cash inflow from financing activities was HK\$14.1 million (2011: HK\$87.1 million). As a result of the cumulative effect described above, the Group recorded a net cash inflow of HK\$4.7 million (2011: outflow of HK\$12.9 million).

As at 31 December 2012, the Group had total assets of HK\$505.9 million (2011: HK\$1,087.4 million) and total liabilities of HK\$68.1 million (2011: HK\$46.1 million). The Group's gearing ratio (calculated as percentage of the Group's total liabilities to total assets) was 13.5% (2011: 4.2%). As at 31 December 2012, the Group did not have any outstanding bank borrowings (2011: Nil).

As at 31 December 2012, the Group's current assets amounted to HK\$27.8 million (2011: HK\$30.7 million), of which HK\$7.2 million (2011: HK\$2.5 million) was cash and bank deposits, and current liabilities amounted to HK\$68.1 million (2011: HK\$46.1 million). As such, the Group recorded net current liabilities of HK\$40.3 million (2011: HK\$15.5 million).

As at 31 December 2012, the net assets of the Group amounted to HK\$437.8 million (including non-controlling interest) (2011: HK\$1,041.2 million) and the net asset value per Share amounted to HK\$0.17 (2011: HK\$0.4).

CAPITAL COMMITMENTS, SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

Capital Commitment

Details of the capital commitment of the Group are disclosed in note 35 to the consolidated financial statements.

Significant Investment and Material Acquisition and Disposal

During the year ended 31 December 2012, the Group entered into a sale and purchase agreement to dispose of its entire interest in a subsidiary engaged in resources and logistics business. However, the long stop date in respect of the said sale and purchase agreement had lapsed and the disposal did not proceed. The Group's interest in such subsidiary was subsequently disposed of in August 2015.



Management Discussion and Analysis

Charge on assets of the Group

No assets of the Group were pledged as at 31 December 2012.

RISKS

The Group mainly operates in Hong Kong, Cambodia and the PRC and is exposed to foreign exchange risk. The Group does not have a foreign currency hedging policy but it continuously monitors its foreign exchange exposure and will apply appropriate measures if necessary. The Group's business is also subject to a number of risks including the weather conditions, natural hazards and illegal logging in the Three Forests and the price movement of the wooden products.

EMPLOYEES' INFORMATION AND BENEFIT SCHEMES FOR EMPLOYEES

As at 31 December 2012, the Group had 99 (2011: 196) employees. The Group remunerates its employees based on their performance, working experience and the prevailing market condition.

Biographical Details of Directors

DIRECTORS

Executive directors

Ms. Yu Xiao Min, aged 46 and the chairperson of the Board, has extensive international network and substantial business experience in Hong Kong, the PRC, Southeast Asia, North and South America. Ms. Yu was awarded the “Outstanding Entrepreneur of Guangdong Province” by the Guangdong Provincial Executive Association of Entrepreneurs and the “Asia Pacific Entrepreneurship Awards — Most Promising Category” by Enterprise Asia. She is also an independent non-executive director of China Culiangwang Beverages Holdings Limited, a company whose shares are listed on the main board of the Stock Exchange. Ms. Yu holds a master’s degree in business administration.

Ms. Xu Miaoxia, aged 57, has more than 30 years of experience in sales and distribution, procurement, production and logistics in the PRC. Prior to joining the Group, Ms. Xu was the director of a manufacturing and logistics group in the PRC. She also used to hold progressive positions from procurement, shop management, distribution to logistics in a large retail and logistics group listed in the PRC and was a senior management before leaving the Group. Ms. Xu holds a university diploma in business economics.

Mr. Zeng Lingchen, aged 35, possesses substantial experience in plantation of rubber trees and sale of rubber products. Prior to joining the Company, Mr. Zeng held management positions in two rubber plantation companies in the PRC. He holds a bachelor’s degree in environmental engineering.

Mr. Chultemsuren Gankhuyag, aged 62, has substantial experience in the natural resources business including forestry and mine exploration in Europe and Mongolia. Prior to joining the Group, Mr. Gankhuyag was the chief geologist of a coal mining company in Mongolia. He holds a bachelor’s degree in geology. He resigned with effect on 14 May 2015.

Mr. Gong Ting, aged 36, is an entrepreneur with diversified business interests in agricultural, information technology, natural resources and real estate in the PRC and Mongolia. He resigned with effect on 4 September 2014.

Mr. Leung Sze Yuan, Alan, aged 47, is a member of the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. Before joining the Group, Mr. Leung was with a global investment group responsible for private equity investment in Asia. Mr. Leung holds a master’s degree in business administration. He resigned with effect on 28 March 2015.

Independent non-executive directors

Ms. Pang King Sze, Rufina, aged 40, has more than 15 years of experience in the areas of audit, financial management and internal control. She is currently the co-founder and a partner of a certified public accountants firm in Hong Kong. Ms. Pang is a member of the Hong Kong Institute of Certified Public Accountants and a member of the New Zealand Institute of Chartered Accountants. Ms. Pang holds a bachelor’s degree in business.

Mr. Hong Bingxian, aged 48, has more than 20 years of experience in production and international trade and substantial knowledge in logistics management and production process. He is the founder and managing director of a manufacturing group in the PRC.

Mr. Kenneth Hung, aged 44, has extensive experience in the entertainment industry in Hong Kong and the PRC. Mr. Hung is presently an executive director of China Mobile Games and Cultural Investment Limited, and an independent non-executive director of Oriental Unicorn Agricultural Group Limited and DX.com Holding Limited, respectively, all of whose shares are listed on the Growth Enterprise Market of the Stock Exchange. Mr. Hung holds a bachelor’s degree in science.



Biographical Details of Directors

Mr. Tam Wai Leung, Joseph, aged 49, is a fellow member of the Institute of Cost and Executive Accountants in the United Kingdom and the Association of Taxation and Management Accountants in Australia. Mr. Tam holds a doctor's degree in philosophy. He resigned with effect on 8 October 2012.

Mr. Zhang Ying, aged 48, has many years working experience in financial management and internal control gained from his employment with banks in the PRC. Mr. Zhang holds a bachelor's degree in economic management. He resigned with effect on 4 September 2014.

Ms. Wen Huiying, aged 77, is a senior accountant in the PRC and possesses substantial experience in accounting and financial management. She was the financial controller of a state-owned company listed in the PRC for more than 10 years. Ms. Wen was awarded the "National Pioneering Accounting Practitioner" by the Ministry of Finance of the PRC. Her profile has also been registered in the "World's Famous People", the "Dictionary of Chinese Talents" and the "Dictionary of Modern Outstanding Management Experts". She resigned with effect on 28 March 2015.

Report of the Directors

The Directors submit herewith this annual report together with the audited financial statements of the Group for the year ended 31 December 2012.

CHANGE OF NAME

With effective from August 2015, the name of the Company has been changed from “China Asean Resources Limited” to “IR Resources Limited” pursuant to a special resolution passed by the shareholders of the Company at an annual general meeting held on 15 July 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities and particulars of its subsidiaries and associates are set out in notes 17 and 20 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group’s revenue and results by reportable segments and geographical locations of the Company and its subsidiaries during the financial year is set out in note 4 to the consolidated financial statements.

FIVE YEARS SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 100 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The information on the Group’s sales and purchases attributable to major customers and suppliers, respectively, during the financial year is as follows:

| | Percentage of the Group’s total | |
|-------------------------------------|------------------------------------|-----------|
| | Sales | Purchases |
| The largest customer | 51% | |
| Five largest customers in aggregate | 100% | |
| The largest supplier | | N/A |
| Five largest suppliers in aggregate | | N/A |

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

CONSOLIDATED FINANCIAL STATEMENTS

The result of the Group for the year ended 31 December 2012 and the state of the Group’s and the Company’s affairs as at that date are set out on pages 24 to 98 of the consolidated financial statements.

Report of the Directors

RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 27 and in notes 29 to the consolidated financial statements. As at 31 December 2012, the Company had no reserves available for distribution (2011: Nil).

DIVIDENDS

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

CHARITABLE DONATIONS

During the year ended 31 December 2012, the Group made charitable contributions of HK\$728,000. (2011: HK\$1,375,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year ended 31 December 2012 are set out in note 15 to the consolidated financial statements.

BANK BORROWINGS

The Group did not have any bank borrowings as at 31 December 2012 (2011: Nil).

DIRECTORS

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

Executive Directors

Ms. Yu Xiao Min (*Chairperson*) (*appointed on 7 February 2012*)

Ms. Xu Miaoxia (*appointed on 14 May 2015*)

Mr. Zeng Lingchen

Mr. Gong Ting (*resigned on 4 September 2014*)

Mr. Leung Sze Yuan, Alan (*resigned on 28 March 2015*)

Mr. Chultemsuren Gankhuyag (*resigned on 14 May 2015*)

Independent non-executive Directors

Mr. Hong Bingxian (*appointed on 8 October 2012*)

Ms. Pang King Sze, Rufina (*appointed on 4 September 2014*)

Mr. Kenneth Hung (*appointed on 28 March 2015*)

Mr. Zhang Ying (*resigned on 4 September 2014*)

Ms. Wen Huiying (*resigned on 28 March 2015*)

Mr. Tam Wai Leung, Joseph (*resigned on 8 October 2012*)

No Annual General Meeting ("AGM") had been held for the year until 15 July 2015. In accordance with Bye-Laws 99 of the Company's Bye-Laws, Mr. Zeng Lingchen shall retire from the Board by rotation at the forthcoming AGM. In accordance with Bye-Laws 102(B) of the Company's Bye-Law, Ms. Xu Miaoxia, Ms. Pang King Sze, Rufina and Mr. Kenneth Hung shall hold office until the forthcoming AGM. All the retiring Directors being eligible, offer themselves for re-election. The biographical details of the Directors are set out on pages 7 to 8 of this annual report.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

On 7 February 2012, Ms. Yu Xiao Min was appointed as an executive Director and the chairperson of the Board and entered into a service contract which continues until next annual general meeting. All of the executive Directors and independent non-executive Directors have entered into service contracts renewable every year with the Company. There is no service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation for any Director proposed for re-election at the forthcoming AGM).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by Directors as referred to in Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

| Name | Capacity Interest | Number of Ordinary Shares held | Number of underlying Shares held | Approximately Percentage of shareholding in the Company |
|----------------------------------------------------------|-------------------|--------------------------------|----------------------------------|---------------------------------------------------------|
| | | | (Note 1) | |
| Better Day International Limited ("Better Day") (Note 2) | Corporate owner | 446,370,967 | — | 17.01% |
| Mr. Gong Ting (Note 3) | Beneficial owner | 415,000,000 | — | 15.82% |
| Mr. Leung Sze Yuan, Alan (Note 4) | Beneficial owner | 10,950,917 — | — 5,000,000 | 0.42% 0.19% |
| Mr. Zhang Zhenzhong (Note 5) | Beneficial owner | 27,328,000 — | — 5,000,000 | 1.04% 0.19% |

Notes:

1. represented the share options granted by not yet exercised.
2. Better Day is wholly and beneficially owned by Ms. Yu Xiao Min, an executive Director.
3. Mr. Gong Ting resigned as an executive Director in September 2014.
4. Mr. Leung Sze Yuan, Alan resigned as an executive Director in March 2015.
5. Mr. Zhang Zhenzhong ("Mr. Zhang") was removed as the chief executive officer of the Company in October 2014.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed by the shareholders of the Company on 10 June 2011, the Company adopted a new share option scheme (the "Share Option Scheme"), pursuant to which any employees and Directors of the Company and its subsidiaries may be granted options to subscribe for the Shares of the Company and the previous share option scheme adopted on 14 December 2001 was terminated. The principal terms of the Share Option Scheme are set out in the Company's circular dated 27 April 2011.

Report of the Directors

SHARE OPTION SCHEME OF THE COMPANY

Details of the movements in share options granted under the Share Option Scheme and as at 31 December 2012 were as follows:

| Grantee | Date of grant | Exercise period | Exercise price per share (HK\$) | Number of share options | | | Lapsed during the year | At 31 December 2012 |
|-------------------|---------------|---------------------------|---------------------------------------|-------------------------|----------------------------|------------------------------|---------------------------|------------------------|
| | | | | As 1 January 2012 | Granted during the year | Exercised during the year | | |
| Director (Note 1) | 31-3-2008 | 31-3-2010 to 30-3-2012 | 0.815 | 2,314,800 | — | — | (2,314,800) | — |
| | 4-6-2010 | 4-6-2011 to 3-6-2014 | 0.365 | 5,000,000 | — | — | — | 5,000,000 |
| Employees | 31-3-2008 | 31-3-2010 to 30-3-2012 | 0.815 | 3,472,200 | — | — | (3,472,200) | — |
| | 4-6-2010 | 4-6-2011 to 3-6-2014 | 0.365 | 7,300,000 | — | — | — | 7,300,000 |
| total: | | | | 18,087,000 | — | — | (5,787,000) | 12,300,000 |

Note 1: represented the share options granted to Mr. Leung Sze Yuan, Alan, who resigned as an executive Director in March 2015.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as the share options granted under the Share Option Scheme, as at 31 December 2012, no other Directors or the chief executive of the Company or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or the chief executive of the Company or any of their respective associates, including spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, so far as is known to any of the Directors or the chief executive of the Company, no other person (other than a Director or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, who is interested in 10% or more of any class of share capital carrying rights to vote at general meetings of the Company.

Report of the Directors

DIRECTORS' INTEREST IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted as at 31 December 2012 or during the year ended 31 December 2012.

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

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during 2012.

COMPETING INTERESTS

None of the Directors or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules), engaged in any businesses that compete or may compete with the business of the Group or has any other conflicts of interests with the Group for the year ended 31 December 2012.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PENSION SCHEMES

Details of the Group's pension scheme for the year ended 31 December 2012 are set out in note 2.4 to the consolidated financial statements on page 52.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTION

In September 2012, the Group (as the vendor) entered into a sale and purchase agreement with Mr. Gong Ting (as the purchaser), a former Director, relating to the disposal of the entire equity interest of Linkbest System Development Limited, a then wholly-owned subsidiary of the Company engaged in resources and logistics business in the PRC, for a consideration of HK\$25 million. However, the long stop date in respect of the said sale and purchase agreement had lapsed and the disposal did not proceed.

The related party transactions of the Group as set out in note 36 to the consolidated financial statements constituted fully exempted connected transactions under Chapter 20 of the GEM Listing Rules.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board considers good corporate governance is a key element in managing the business and affairs of the Group. The management of the Group periodically reviews and proposes amendments to its corporate governance practices for compliance with the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. In the opinion of the Board, the Company has complied with the CG Code. Details of the Group's corporate governance practices adopted by the Board are set out in the Corporate Governance Report on pages 16 to 18 of this annual report.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors, there is sufficient public float of more than 25% of the Company's issued shares at the date of this annual report.

INDEPENDENCE

Each existing independent non-executive Director has confirmed his/her independence pursuant to the GEM Listing Rules. The Board considers all the independent non-executive Directors are independent.

AUDIT COMMITTEE

The audit committee of the Board (the "Audit Committee") has been established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Audit Committee's primary duties include reviewing Company annual reports and quarterly financial reports and providing advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The Audit Committee currently comprise of three independent non-executive Directors, namely, Ms. Pang King Sze, Rufina, Mr. Hong Bingxian and Mr. Kenneth Hung. No meeting was held during the year under review.

The Audit Committee has reviewed the Company's audited annual report for the year ended 31 December 2012 and was of the opinion that the preparation had complied with the applicable accounting standards and requirements and that adequate disclosures had been made.

AUDITORS

KLC Kennic Lui & Co. Ltd who acted as the auditor of the Company for the past three years.

Subsequent to the reporting period, KLC Kennic Lui & Co Ltd, had resigned and Ascenda Cachet CPA Limited, Certified Public Accountant, were first appointed as the auditors of the Company on 8 March 2013. The consolidated financial statements for the year ended 31 December 2012 were audited by Ascenda Cachet CPA Limited. Ascenda Cachet CPA Limited will retire at the conclusion of the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ascenda Cachet CPA Limited as auditors of the Company is to be proposed at the forthcoming AGM.

By order of the Board
Yu Xiao Min
Chairperson of the Board

Hong Kong, 24 February 2016

Corporate Governance Report

THE BOARD OF DIRECTORS

Board composition

The Board currently comprises six Directors, who have various skills and experience in business, financial, accounting and management, of whom three are executive Directors and three are independent non-executive Directors. Details are set out in the section headed "Report of the Directors" of this annual report. All executive Directors have given sufficient time and attention to the affairs of the Group and each executive Director has sufficient experience to hold his/her position and to carry out his/her duties effectively and efficiently.

The composition of the Board and the Directors' biographical information are set out on pages 8, 9 and 11 of this annual report.

Board meetings

The Directors attended the Board meetings in person or participated through electronic means of communication. All Directors have access to board papers and related materials, and are provided with adequate information which enables the Board to make informed decisions on the matters to be discussed and considered at board meetings. The company secretary of the Company assists the chairperson in preparing the agenda for the meeting, and ensures that all applicable rules and regulations regarding the meetings are observed.

The Board is responsible for planning and overseeing the overall development and management of the Group with the objective of enhancing shareholders' value. The Board is responsible for formulating the overall strategies of the Group, and execution of daily operational matters is delegated to management.

Details of the Board meetings held during the year ended 31 December 2012 are as follows:

| | Number of Board meetings held during the Director's term of office in 2012 | Number of meetings attended |
|--------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------|
| Executive Directors | | |
| Ms. Yu Xiao Min (<i>Chairperson</i>) (<i>appointed on 7 February 2012</i>) | 10 | 5 |
| Mr. Zeng Lingchen | 10 | 5 |
| Mr. Gong Ting (<i>resigned on 4 September 2014</i>) | 10 | 3 |
| Mr. Leung Sze Yuan, Alan (<i>resigned on 28 March 2015</i>) | 10 | 10 |
| Mr. Chultemsuren Gankhuyag (<i>resigned on 14 May 2015</i>) | 10 | 2 |
| Independent Non-executive Directors | | |
| Mr. Hong Bingxian (<i>appointed on 8 October 2012</i>) | 2 | 2 |
| Mr. Zhang Ying (<i>resigned on 4 September 2014</i>) | 10 | 5 |
| Ms. Wen Huiying (<i>resigned on 28 March 2015</i>) | 10 | 5 |
| Mr. Tam Wai Leung, Joseph (<i>resigned on 8 October 2012</i>) | 8 | 7 |

Corporate Governance Report

Chairperson and Chief Executive

To ensure a balance of power and authority, a clear division of the responsibilities of the chairperson of the Board and the chief executive has been set out in writing. The chairperson is mainly responsible for providing leadership to the Board, encouraging all Directors to make full and active contribution to the Board's affairs and ensuring that the Board acts in the best interest of the Group. The chief executive is responsible for the implementation of the Group's strategies and policies adopted by the Board in achieving the overall commercial objectives and assumes full accountability to the Board for the operation of the Group.

During the year ended 31 December 2012, the role of the chairperson is performed by Ms. Yu Xiao Min (appointed on 7 February 2012) and Mr. Leung Sze Yuan, Alan (resigned on 7 February 2012) while the offices of the chief executive are Mr. Zhang Zhen Zhong (removed on 3 October 2014) and Mr. Sun Zhen (removed on 3 May 2013).

Continuing Professional Development

During the year ended 31 December 2012, the Directors have from time to time read relevant information to gain understanding of the economy and the financial and business environment for their continuous contribution to the Group.

Term of appointment and re-election

All independent non-executive Directors were appointed for a term of one year. All Director appointments are renewable with the Board's approval. Pursuant to the Bye-Laws of the Company, one third of the Directors (except the chairperson or managing Director of the Company) shall retire from office by rotation and are subject to re-election at AGMs. The Directors to retire and year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day shall (unless they otherwise agree between themselves) be determined by lot. Further, all Directors appointed to fill casual vacancies shall hold office only until the next following AGM and shall then be eligible for re-election at the meeting.

REMUNERATION COMMITTEE

The Remuneration Committee, as at the date of this annual report, comprises three members, the majority of which are independent non-executive Directors. The chairperson of the committee is Ms. Pang King Sze, Rufina and the other members are Ms. Yu Xiao Min and Mr. Hong Bingxian. The Remuneration Committee is responsible for formulating and recommending to the Board the remuneration policies, determining the remuneration of executive Directors and members of senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure, provident fund and other compensation-related issues. The Remuneration Committee is also provided with other resources enabling it to discharge its duties. The terms of reference of the Remuneration Committee is written in compliance with the GEM Listing Rules.

NOMINATION COMMITTEE

The Nomination Committee, as at the date of this annual report, comprises three members, the majority of which are independent non-executive Directors. The chairperson of the committee is Ms. Pang King Sze, Rufina and the other members are Ms. Yu Xiao Min and Mr. Hong Bingxian. The Nomination Committee is responsible for formulating nomination policies, making recommendations to the Board on nominations and appointments of Directors and board succession planning. The committee is provided with sufficient resources to enable it to discharge its duties.

Corporate Governance Report

AUDIT COMMITTEE

The Audit Committee, as at the date of this annual report, comprises three members, all being independent non-executive Directors. The chairperson of the committee is Ms. Pang King Sze, Rufina and the other members are Mr. Hong Bingxian and Mr. Kenneth Hung. The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim reports, and the independent auditor's report present a true and balanced assessment of the Group's financial position; reviewing the Group's financial controls, internal controls and risk management systems; and reviewing the Group's financial and accounting policies and practices. The Audit Committee is provided with sufficient resources to enable it to discharge its duties

AUDITORS' REMUNERATION

For the year ended 31 December 2012, the fees payable to the auditors of the Group in respect of audit services and other assurance services was HK\$1,400,000.

DELEGATION BY THE BOARD

The Board is responsible for decisions in relation to the overall strategic development of the Group's business. Responsibility in relation to the daily operations and execution of the strategic business plans are delegated to management. The Audit Committee, the Remuneration Committee and the Nomination Committee, have their terms of reference which clearly define the powers and responsibilities. All committees are required to report to the Board in relation to their decisions, findings and/or recommendations, and in certain specific situations, to seek the Board's approval before taking any actions. The Board will from time to time reviews the delegations by the Board to different committees such that delegations are appropriate.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Company uses a number of channels to communicate to shareholders and investors on the performance of the Company, including (i) the publication of quarterly, interim and annual reports; (ii) the AGM or extraordinary general meeting which provide a forum for shareholders of the Company to raise comments and exchange views with the Board; (iii) key information on the Group is available on the website of the Company; and (iv) the Company's share registrars in Hong Kong serve the shareholders on all share registration matters. The Company aims to provide its shareholders and investors with high standard of disclosure and financial transparency.

Shareholders are encouraged to attend the AGM for which at least 21 days' notice is given. The chairperson of the Board as well as chairperson of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, other Directors are available to answer shareholders' questions on the Group's business at the meetings. All shareholders have statutory rights to call for extraordinary general meetings and to put forward an agenda for consideration.

Independent Auditors' Report



13F Neich Tower
128 Gloucester Road
Wanchai Hong Kong

INDEPENDENT AUDITORS' REPORT

To the shareholders of IR Resources Limited

(formerly known as "China Asean Resources Limited")
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of IR Resources Limited (formerly known as "China Asean Resources Limited") (the "Company"), and its subsidiaries (together, the "Group") set out on pages 24 to 99, which comprise the consolidated and company's statements of financial position as at 31 December 2012, and the consolidated statement of profit or loss, 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 ("HKICPA") and the disclosure requirements of predecessor Hong Kong Companies Ordinance, Cap. 32, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, 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.

Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Because of the matters described in the Basis for Disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independent Auditors' Report

BASIS FOR DISCLAIMER OF OPINION

(1) Scope limitation — loss of access to books and records of certain subsidiaries

As detailed in note 30 to the consolidated financial statements, the Group entered into an agreement to dispose of its 100% equity interest in Linkbest System Development Limited (“Linkbest”) and its subsidiaries, including 內蒙古華越礦業有限公司 (literally translated as Inner Mongolia Huayue Mining Limited, “IM Mining”) (collectively, the “Linkbest Group”) on 5 September 2012 to the original vendor, Mr. Gong Ting (“Mr. Gong”) (the “First Linkbest Disposal”). Mr. Gong was also a substantial shareholder and a director of the Company during the year ended 31 December 2012 and subsequently resigned as a director of the Company on 4 September 2014. However, the First Linkbest Disposal had not been completed on the long stop date in January 2014. The Linkbest Group was subsequently disposed of to an independent third party in August 2015 (the “Second Linkbest Disposal”).

As (i) the management of the Company had been devoting its attention in preparing for the disposal of the Linkbest Group to Mr. Gong, who had been designated by the Board to manage the Linkbest Group since 2012; (ii) the departure of certain management and staff as a result of the non-performance of IM Mining and wage disputes; and (iii) the remaining books and records of the Linkbest Group were transferred to the buyer upon completion of the Second Linkbest Disposal in August 2015, the underlying books and records of the Linkbest Group were not accessible and only limited financial information of the Linkbest Group was retained by the Group for accounting and auditing purposes. Therefore, the Directors were unable to give representation as to whether the consolidated financial statements of the Linkbest Group for the year ended 31 December 2012 are free from material misstatement and fairly stated. During the course of our audit, we had not been provided with the books and records of the Linkbest Group for the year ended 31 December 2012 or sufficient appropriate audit evidence for our assessment of the control by Linkbest over IM Mining. We were unable to carry out alternative audit procedures we considered necessary to satisfy ourselves as to (i) whether the consolidated financial statements of the Linkbest Group for the year ended 31 December 2012, which were consolidated into the Group's consolidated financial statements for the year ended 31 December 2012, are free from material misstatement and fairly stated; and (ii) whether IM Mining had been properly accounted for as a subsidiary of Linkbest. Any adjustments found to be necessary would affect the net assets of the Group as at 31 December 2012 and 2011 and consequently, its loss and cashflows for the years ended 31 December 2012 and 2011, and the related disclosures thereof in the consolidated financial statements.

(2) Scope limitation — the intangible assets

As detailed in notes 15 and 18 to the consolidated financial statements, (i) intangible assets amounted to approximately HK\$307,164,000 (2011: HK\$853,091,000) as at 31 December 2012, and the 2011 Additional Amortisation (as defined below) and the amortisation and impairment for the year then ended amounted to HK\$39,815,000 (2011: HK\$Nil), HK\$51,386,000 (2011: HK\$12,734,000) and HK\$460,186,000 (2011: HK\$Nil), respectively; (ii) the related constructed roads (the “Constructed Roads”) amounted to approximately HK\$12,102,000 (2011: HK\$19,732,000) and impairment for the year then ended amounted to HK\$9,608,000 (2011: HK\$Nil). The intangible assets represented a total of three timber logging rights concessions (the “Timber Logging Rights”) for logging the timber already existed in the forests 1, 2 and 3 (collectively, the “Forests”) in Cambodia for a concession period (the “Concession Period”) of 70 years with areas of approximately 7,449, 7,000 and 7,200 hectares, respectively. The Timber Logging Rights were acquired by the Group during the years ended 31 December 2007, 2008 and 2010, respectively and were stated at cost less accumulated amortisation and impairment losses. In addition, the Royal Government of Cambodia issued a notification subsequent to the end of the reporting period in July 2015 that the Concession Period will be reduced from 70 years to 50 years.

Independent Auditors' Report

The Directors engaged (i) a professional tree expert (the "Tree Expert") to determine the volume and condition of the timber (the "Timber Volume") in the Forests underlying the Timber Logging Rights and (ii) a professional valuer (the "Valuer") to determine the fair value of the Timber Logging Rights. However, the Tree Expert and the Valuer were initially appointed by the Group subsequent to the end of the reporting period and physical inspections and physical count of the Timber Volume and the Constructed Roads were attended by the Tree Expert, the Valuer and us in November 2014, and the Timber Volume as at 31 December 2011 and 2012 was calculated (the "Timber Roll Back Reconciliation") by the management based on internal records and the physical inspections and physical count in November 2014. However, no physical inspections and physical count were performed on 31 December 2012. Based on such Timber Volume, the management also determined the related amortisation and impairment (the "2012 Amortisation and Impairment") for the year ended 31 December 2012 as well as the 2011 Additional Amortisation.

Prior to 1 January 2012, the Timber Logging Rights were amortised over the concession period of 70 years (the "Annual Amortisation Method"). During the year ended 31 December 2012, the Directors have re-assessed the method for amortisation of the Timber Logging Rights and are of the opinion that the unit of production amortisation method (the "UOP Amortisation Method") will better reflect the economic substance of the timber logging transactions of the Group. Accordingly, the Group has changed its accounting policy during the year ended 31 December 2012 from the Annual Amortisation Method to the UOP Amortisation Method and the accumulated amortisation (the "2011 Additional Amortisation") of the Timber Logging Rights as at 31 December 2011 should be increased by approximately HK\$39,815,000 as a result of the change to the UOP Amortisation Method. Pursuant to Hong Kong Accounting Standard 8 ("HKAS 8") "Accounting Policies, Changes in Accounting Estimates and Errors", the 2011 Additional Amortisation should be retrospectively put through to restate the consolidated financial statements of the Group for the year ended 31 December 2011. However, the 2011 Additional Amortisation has been incorrectly recognised in the consolidated statement of profit or loss during the year ended 31 December 2012.

During the course of our audit, we have not been provided with sufficient appropriate audit evidence for verifying the amount of timber logged during the year ended 31 December 2012 and prior to that and therefore we were unable to carry out alternative audit procedures we considered necessary to satisfy ourselves as to whether the 2012 Amortisation and Impairment and the 2011 Additional Amortisation have been properly calculated.

During the course of our audit, as certain accounting records and documents have not been properly kept due to the departure of certain local key management and staff as a result of non-performance of the Group's operations in Cambodia, we have not been provided with sufficient appropriate audit evidence for verifying whether the Timber Roll Back Reconciliation of the Timber Volume and fair value of the Timber Logging Rights as at 31 December 2012 and 2011 has been properly prepared. In addition, we were also unable to review the working papers of the previous auditor and valuer for verifying whether the opening balance of the Timber Logging Rights and the Constructed Roads as at 1 January 2012. We were unable to carry out the alternative audit procedures we considered necessary to satisfy ourselves as to whether the balance of (i) the Timber Logging Rights as at 31 December 2011, 1 January 2012 and 31 December 2012; and (ii) the Constructed Roads as at 31 December 2011 are free from material misstatement and fairly stated. Any adjustments found to be necessary would affect the net assets of the Group as at 31 December 2012 and 2011 and consequently, its loss and cashflows for the years ended 31 December 2012 and 2011, and the related disclosures thereof in the consolidated financial statements.

(3) Scope limitation — the biological assets

As detailed in note 16 to the consolidated financial statements, included in the consolidated statement of financial position as at 31 December 2012 were biological assets of HK\$Nil (2011: HK\$21,295,000) after the related impairment of approximately HK\$31,766,000 (2011: HK\$Nil) (note 16) during the year ended 31 December 2012. The biological assets represented the land clearing and plantation costs incurred for existing rubber trees and were stated at its fair value as at the end of each reporting period.

Independent Auditors' Report

The Directors engaged the Valuer to determine the fair value of the biological assets. However, the Valuer was initially appointed by the Group subsequent to the end of the reporting period and physical inspections and physical count of the biological assets were attended by the Valuer and us in November 2014, and the quantity and fair value of the biological assets as at 31 December 2012 was calculated (the "Biological Assets Roll Back Reconciliation") by the management based on internal records and the physical inspections and physical count in November 2014. However, no physical inspections and physical count were performed on 31 December 2012.

During the course of our audit, as certain accounting records and documents have not been properly kept due to the departure of certain local key management and staff as a result of non-performance of the Group's operations in Cambodia, we have not been provided with sufficient appropriate audit evidence for verifying whether the Biological Assets Roll Back Reconciliation and fair value of the biological assets as at 31 December 2012 have been properly prepared. In addition, we were also unable to review the working papers of the previous auditor and valuer for verifying whether the opening balance of the biological assets as at 1 January 2012. We were unable to carry out alternative audit procedures we considered necessary to satisfy ourselves as to whether the balance of the biological assets as at 31 December 2012 and 2011 and the related impairment for the years ended 31 December 2012 and 2011 are free from material misstatement and fairly stated. Any adjustments found to be necessary would affect the net assets of the Group as at 31 December 2012 and 2011 and consequently, its loss and cashflows for the years ended 31 December 2012 and 2011, and the related disclosures thereof in the consolidated financial statements.

(4) Scope limitation — impairment of investments in subsidiaries and amounts due from subsidiaries

As detailed in note 17 to the consolidated financial statements, included in the Company's statement of the financial position were the net carrying amount of the investments in subsidiaries of approximately HK\$1,360,000 (2011: HK\$8,096,000) and amounts due from subsidiaries of approximately HK\$352,935,000 (2011: HK\$987,243,000), net of accumulated impairment of approximately HK\$4,130,000 and HK\$644,450,000 (2011: HK\$Nil) respectively, as at 31 December 2012. Based on the management's impairment assessment, a provision for impairment losses of approximately HK\$4,130,000 (2011: HK\$Nil) and HK\$644,450,000 (2011: HK\$Nil), respectively, was made on the investments in subsidiaries and the amounts due from subsidiaries during the year ended 31 December 2012. Due to the significant losses incurred by the subsidiaries and the scope limitations (1), (2) and (3) above, we were unable to carry out alternative audit procedures we considered necessary to satisfy ourselves as to whether the balance of the investments in subsidiaries and amounts due from subsidiaries as at 31 December 2012 and the related impairment for the year ended 31 December 2012 are free from material misstatement and fairly stated. Any adjustments found to be necessary would affect the net assets of the Company as at 31 December 2012 and consequently, its loss of the Company for the year then ended, and the related disclosures thereof in the Company's financial statements.

(5) Fundamental uncertainty — going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 2.1 to the consolidated financial statements concerning the liquidity position of the Group and the Company and the adoption of the going concern basis in the preparation of the consolidated financial statements. The Group incurred a loss of approximately HK\$600,119,000 during the year ended 31 December 2012 and had consolidated net current liabilities of approximately HK\$40,292,000 as at 31 December 2012 which indicates the existence of a material uncertainty which may cast significant doubt on the Group and the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Despite the above, the consolidated financial statements have been prepared on the going concern basis, the validity of which depends on the results of the Group's future funding being available and the success of the future operation should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively, the effects of these potential adjustments have not been reflected in the consolidated financial statements. We consider that appropriate disclosures have been made. However, we consider this fundamental uncertainty is significant and pervasive to the consolidated financial statements and therefore we have disclaimed our opinion in respect of the appropriateness of adopting the going concern basis for the preparation of the consolidated financial statements.

Independent Auditors' Report

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and 2011 and of the loss and cashflows of the Group for the years ended 31 December 2012 and 2011 in accordance with Hong Kong Financial Reporting Standards and as to whether they have been properly prepared in accordance with the disclosure requirements of the predecessor Hong Kong Companies Ordinance, Cap 32.

Report on matters under Sections 141(4) and 141(6) of the predecessor Hong Kong Companies Ordinance, Cap. 32.

In respect alone of the inability to obtain sufficient appropriate audit evidence about the matters described in the Basis for Disclaimer of Opinion paragraphs:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Yuk Tong

Practising Certificate Number: P03723

Hong Kong
24 February 2016

Consolidated Statement of Profit or Loss

Year ended 31 December 2012

| | Notes | 2012 HK\$'000 | 2011 HK\$'000 |
|----------------------------------------------------------------|-------|----------------------|------------------|
| CONTINUING OPERATIONS | | | |
| REVENUE | 5 | 6,313 | 204 |
| Cost of sales | 6 | (5,062) | (122) |
| Gross profit | | 1,251 | 82 |
| Other income and gains | 5 | 20,288 | 8,204 |
| Selling and distribution costs | | (2,078) | (551) |
| Administrative expenses | | (116,589) | (50,747) |
| Finance costs | 7 | — | (8,743) |
| Impairment loss on trade receivables | 6 | — | (916) |
| Impairment loss on prepayments, deposits and other receivables | 6 | (2,038) | (6,084) |
| Impairment loss on property, plant and equipment | 6, 15 | (15,512) | — |
| Write-down of inventories to net realisable value | 6, 21 | (819) | (869) |
| Impairment loss on biological assets | 6, 16 | (31,766) | — |
| Impairment loss on intangible assets | 6, 18 | (460,186) | — |
| Impairment loss on goodwill arising from a subsidiary | 6, 19 | (18,579) | — |
| Share of profit of associates | | 25,909 | — |
| LOSS BEFORE TAX FROM CONTINUING OPERATIONS | 6 | (600,119) | (59,624) |
| Income tax expense | 10 | — | (1,540) |
| LOSS FOR THE YEAR FROM CONTINUING OPERATIONS | | (600,119) | (61,164) |
| DISCONTINUED OPERATION | | | |
| Loss for the year from discontinued operation | 12 | — | (151) |
| LOSS FOR THE YEAR | | (600,119) | (61,315) |
| Loss attributable to: | | | |
| Equity holders of the Company | | (600,119) | (61,312) |
| Non-controlling interests | | — | (3) |
| | | (600,119) | (61,315) |
| Basic loss per share | 14 | | |
| For loss for the year | | (22.87) cents | (3.22) cents |
| For loss from continuing operations | | (22.87) cents | (3.21) cents |
| Diluted loss per share | 14 | | |
| For loss for the year | | (22.87) cents | (3.22) cents |
| For loss from continuing operations | | (22.87) cents | (3.21) cents |

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

| | 2012 HK\$'000 | 2011 HK\$'000 |
|-----------------------------------------------------------------------------------------------|------------------|------------------|
| LOSS FOR THE YEAR | (600,119) | (61,315) |
| OTHER COMPREHENSIVE INCOME | | |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i> | | |
| Exchange differences on translation of foreign operations | 548 | 75 |
| Less: Income tax effect | — | — |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | 548 | 75 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | (599,571) | (61,240) |
| Attributable to: | | |
| Equity holders of the Company | (599,571) | (61,237) |
| Non-controlling interests | — | (3) |
| | (599,571) | (61,240) |

Consolidated Statement of Financial Position

31 December 2012

| | Notes | 2012 HK\$'000 | 2011 HK\$'000 |
|------------------------------------------------------------------------|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 15 | 23,634 | 42,793 |
| Biological assets | 16 | — | 21,295 |
| Intangible assets | 18 | 307,164 | 853,091 |
| Goodwill | 19 | — | 18,579 |
| Interest in associates | 20 | 147,274 | 120,968 |
| Total non-current assets | | 478,072 | 1,056,726 |
| Current assets | | | |
| Inventories | 21 | 5,736 | 4,733 |
| Trade receivables | 22 | — | — |
| Prepayments, deposits and other receivables | 23 | 14,951 | 23,378 |
| Cash and bank balances | 24 | 7,161 | 2,503 |
| Total current assets | | 27,848 | 30,614 |
| Assets of a disposal group classified as held for sale | 12 | — | 38 |
| Total current assets | | 27,848 | 30,652 |
| Current liabilities | | | |
| Other loans, other payables and accruals | 25 | 68,140 | 43,703 |
| Tax payable | | — | 1,899 |
| Total current liabilities | | 68,140 | 45,602 |
| Liabilities of a disposal group classified as held for sale | 12 | — | 538 |
| Total current liabilities | | 68,140 | 46,140 |
| NET CURRENT LIABILITIES | | (40,292) | (15,488) |
| Non-current liability | | | |
| Convertible bonds | 26 | — | — |
| Net assets | | 437,780 | 1,041,238 |
| EQUITY | | | |
| Issued capital | 27 | 131,198 | 131,198 |
| Reserves | | 306,585 | 910,043 |
| Total equity attributable to: Equity holders of the Company | | 437,783 | 1,041,241 |
| Non-controlling interests | | (3) | (3) |
| Total equity | | 437,780 | 1,041,238 |

YU Xiao Min
Director

Xu Miaoxia
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

| | Attributable to equity holders of the Company | | | | | | | | | |
|-----------------------------------------------------------------------------------------|-----------------------------------------------|-----------------|---------------------|-----------------|-----------------------|------------------|--------------------|------------------|---------------------------|------------------|
| | Share capital | Share premium | Contributed surplus | Capital reserve | Share options reserve | Exchange reserve | Accumulated losses | Total | Non-controlling interests | Total equity |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2011 | 38,927 | 604,213 | 5,265 | 104,407 | 8,243 | 2,043 | (29,843) | 733,255 | — | 733,255 |
| Placing of shares (note 27(i)) | 5,334 | 58,674 | — | — | — | — | — | 64,008 | — | 64,008 |
| Issue of shares (note 27(ii)) | 24,194 | 96,774 | — | — | — | — | — | 120,968 | — | 120,968 |
| Equity-settled share based arrangements | — | — | — | — | 696 | — | — | 696 | — | 696 |
| Share options lapsed | — | — | — | — | (5,457) | — | 5,457 | — | — | — |
| Conversion of convertible bonds (notes 26 and 27(iii)) | 62,743 | 213,326 | — | (104,407) | — | — | 11,889 | 183,551 | — | 183,551 |
| Loss for the year | — | — | — | — | — | — | (61,312) | (61,312) | (3) | (61,315) |
| Other comprehensive income for the year: | | | | | | | | | | |
| Exchange differences on translation of foreign operations | — | — | — | — | — | 75 | — | 75 | — | 75 |
| Total comprehensive income for the year | — | — | — | — | — | 75 | (61,312) | (61,237) | (3) | (61,240) |
| At 31 December 2011 and at 1 January 2012 | 131,198 | 972,987 | 5,265 | — | 3,482 | 2,118 | (73,809) | 1,041,241 | (3) | 1,041,238 |
| Exchange fluctuation reserve realised upon the deregistration of a subsidiary (note 33) | — | — | — | — | — | (3,740) | — | (3,740) | — | (3,740) |
| Exchange fluctuation reserve realised upon the disposal of a subsidiary (note 32) | — | — | — | — | — | (147) | — | (147) | — | (147) |
| Share options lapsed | — | — | — | — | (1,903) | — | 1,903 | — | — | — |
| Loss for the year | — | — | — | — | — | — | (600,119) | (600,119) | — | (600,119) |
| Other comprehensive income for the year: | | | | | | | | | | |
| Exchange differences on translation of foreign operations | — | — | — | — | — | 548 | — | 548 | — | 548 |
| Total comprehensive income for the year | — | — | — | — | — | 548 | (600,119) | (599,571) | — | (599,571) |
| At 31 December 2012 | 131,198 | 972,987* | 5,265* | —* | 1,579* | (1,221)* | (672,025)* | 437,783 | (3) | 437,780 |

* These balances amounted to approximately HK\$306,585,000 (2011:HK\$910,043,000) and were included in the Company's consolidated reserve.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

| | Notes | 2012 HK\$'000 | 2011 HK\$'000 |
|-----------------------------------------------------------------------|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Loss before tax: | | | |
| From continuing operations | | (600,119) | (59,624) |
| From discontinued operation | 12 | — | (151) |
| Adjustments for: | | | |
| Depreciation | 15 | 5,862 | 4,985 |
| Gain on disposal of property, plant and equipment | | (42) | (14) |
| Amortisation of intangible assets | 18 | 91,201 | 12,734 |
| Equity settled share option expenses | | — | 696 |
| Impairment loss on trade receivables | | — | 916 |
| Impairment loss on prepayments, deposits and other receivables | 23 | 2,038 | 6,084 |
| Impairment loss on intangible assets | 18 | 460,186 | — |
| Impairment loss on property, plant and equipment | 15 | 15,512 | — |
| Write-down of inventories to net realisable value | 21 | 819 | 869 |
| Impairment loss on biological assets | 16 | 31,766 | — |
| Impairment loss on goodwill arising from a subsidiary | 19 | 18,579 | — |
| Gain on disposal of a subsidiary | 32 | (329) | — |
| Interest income | | — | (9) |
| Gain on the deregistration of a subsidiary | 33 | (7,271) | — |
| Write-off of property, plant and equipment | 15 | 724 | 79 |
| Finance costs | | — | 8,743 |
| Share of profit of associates | | (25,909) | — |
| | | (6,983) | (24,692) |
| Increase in inventories | | (1,865) | (3,965) |
| Decrease/(increase) in prepayments, deposits and other receivables | | 638 | (9,646) |
| Increase/(Decrease) in other payables and accruals | | 13,039 | (4,680) |
| Cash from/(used in) operating activities | | 4,829 | (42,983) |
| Overseas tax paid | | (1,572) | — |
| Net cash from/(used in) operating activities | | 3,257 | (42,983) |
| Cash flows from investing activities | | | |
| Additions of property, plant and equipment | 15 | (3,072) | (13,369) |
| Additions of intangible assets | 18 | (5,460) | — |
| Additions of biological assets | 16 | (10,471) | (16,558) |
| Proceeds from disposal of property, plant and equipment | | 227 | 140 |
| Net cash and cash equivalent inflow from disposal of a subsidiary | 32 | 219 | — |
| Interest received | | — | 9 |
| Net cash and cash equivalent outflow from acquisition of subsidiaries | 30 | — | (24,980) |
| Decrease/(increase) in amount due from related companies | | 5,845 | (2,245) |
| Net cash used in investing activities | | (12,712) | (57,003) |

Consolidated Statement of Cash Flows

Year ended 31 December 2012

| <i>Notes</i> | 2012 HK\$'000 | 2011 HK\$'000 |
|-------------------------------------------------------------|--------------------------------|------------------|
| Cash flows from financing activities | | |
| Proceeds from issue of shares | — | 64,008 |
| Increase in amount due to related parties | 14,113 | 23,077 |
| Net cash from financing activities | 14,113 | 87,085 |
| Net increase/(decrease) in cash and cash equivalents | 4,658 | (12,901) |
| Cash and cash equivalents at beginning of year | 2,503 | 15,441 |
| Effect of foreign exchange rate changes | — | (37) |
| Cash and cash equivalents at end of the year | 7,161 | 2,503 |
| Analysis of cash and cash equivalents: | | |
| Cash and bank balances | 7,161 | 2,502 |
| Cash and bank balances classified as assets held for sale | — | 1 |
| | 7,161 | 2,503 |

Statement of Financial Position

31 December 2012

| | Notes | 2012 HK\$'000 | 2011 HK\$'000 |
|---------------------------------------------|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 15 | 35 | 59 |
| Investments in subsidiaries | 17 | 1,360 | 8,096 |
| Investments in associates | 20 | 120,968 | 120,968 |
| Total non-current assets | | 122,363 | 129,123 |
| Current assets | | | |
| Prepayments, deposits and other receivables | 23 | 343 | 183 |
| Due from subsidiaries | 17 | 352,935 | 987,243 |
| Cash and bank balances | 24 | 7 | 12 |
| Total current assets | | 353,285 | 987,438 |
| Current liabilities | | | |
| Other loans, other payables and accruals | 25 | 8,386 | 4,176 |
| Due to subsidiaries | 17 | 81,274 | 205,946 |
| Total current liabilities | | 89,660 | 210,122 |
| NET CURRENT ASSETS | | 263,625 | 777,316 |
| Non-current liability | | | |
| Convertible bonds | 26 | — | — |
| Net assets | | 385,988 | 906,439 |
| EQUITY | | | |
| Issued capital | 27 | 131,198 | 131,198 |
| Reserves | 29(b) | 254,790 | 775,241 |
| Total equity | | 385,988 | 906,439 |

YU Xiao Min
Director

Xu Miaoxia
Director

Notes to Consolidated Financial Statements

31 December 2012

1. CORPORATE INFORMATION

IR Resources Limited (formerly known as “China Asean Resources Limited”) (the “Company”) is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Canon’s Court, 22 Victoria Street Hamilton HM12, Bermuda and its principal place of business in Hong Kong is situated at 36/F., Times Tower, 391-407 Jaffe Road, Wanchai, Hong Kong.

Pursuant to a special resolution passed at an annual general meeting of the Company held on 15 July 2015 and approved by the Registrar of Companies of Bermuda on 11 August 2015, the English name of the Company was changed from “China Asean Resources Limited” to “IR Resources Limited” and the Chinese name of the Company was changed from “神州東盟資源有限公司” to “同仁資源有限公司”.

The Company is an investment holding company. The principal activities of its subsidiaries (together with the Company collectively referred to as the “Group”) are detailed in note 17 to the consolidated financial statements.

The shares of the Company are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and the disclosure requirements of the predecessor Hong Kong Companies Ordinance, Cap 32. They have been prepared under the historical cost convention, except for (i) the biological assets, which are stated in the consolidated statement of financial position at fair value. These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2012, the Group had cash and bank balances of approximately HK\$7,161,000 (2011: HK\$2,503,000) and recorded a consolidated net current liabilities of approximately HK\$40,292,000 (2011: HK\$15,488,000). The directors of the Company (the “Directors”) are of the opinion that the Group and the Company would be able to continue as a going concern and to meet in full their financial obligations as the Directors considered the following factors:

Notes to Consolidated Financial Statements

31 December 2012

2.1 BASIS OF PREPARATION (Continued)

(a) Attainment of profitable operations and improvement of operating cash flows

(i) Forestry and agricultural segment

- (1) On 7 July 2015, the Company entered into a subscription agreement as supplemented by a supplemental agreement dated 30 September 2015 (collectively, the "Subscription Agreements") with six subscribers (the "Subscribers"), who are independent third parties and have substantial experience in the timber industry with sales network. The relevant Subscribers (the "Timber Logging Subscribers") will collaborate with a team of experienced personnel to establish an operating management team to revitalise the timber logging activities of the Group. Pursuant to the Subscription Agreements, (a) the Company will undergo an internal restructuring (the "Restructuring"); (b) the Timber Logging Subscribers will enter into a working capital loan agreement, pursuant to which, the Timber Logging Subscribers will in aggregate provide working capital loan up to HK\$51,750,000 for the carrying out of the timber logging activities; and (c) the Timber Logging Subscribers have guaranteed that for the six-month period immediately after completion of the Subscription Agreements, the six-month period commencing on the seventh month after completion of the Subscription Agreements and the twelve-month period commencing on the thirteen month after completion of the Subscription Agreements, revenue derived from the timber logging activities will not be less than HK\$50,000,000, HK\$50,000,000 and HK\$100,000,000, respectively; and
- (2) In November 2015, the Group entered into a cooperation agreement (the "Plantation Cooperation Agreement") with an experienced plantation operator (the "Plantation Partner"), who is an independent third party with substantial experience in the business of plantation and with operations in Southeast Asia. Pursuant to the Plantation Cooperation Agreement, the Plantation Partner will engage in the plantation business of the Group and, together with the relevant subscribers (the "Plantation Subscribers"), will provide funding to carry out the plantation business of the three forests and will undertake that the annual plantation volume of each of the three forests will be no less than those required by the local registration under the investment contracts. In addition, the Plantation Partner and the Plantation Subscribers will compensate the Company any penalty imposed by the Cambodian government for reasons that the annual plantation volume cannot be met.

(ii) Basic goods business segment

The Group had disposed of its loss-making associates (the "Associates"), which are engaged in the processing and distribution of the basic goods, for a cash consideration of HK\$2,500,000 on 31 August 2015 (note 20).

Notes to Consolidated Financial Statements

31 December 2012

2.1 BASIS OF PREPARATION (Continued)

(b) Loan facilities

In November 2014, the Company entered into a loan facility agreement with its related company ("RC", with a director of the Company also being a sole director and sole shareholder of RC who (i) resigned as a sole director of RC; and (ii) disposed all equity interest in RC on 14 November 2014. RC ceased a related company of the Company and became an independent party since then), for the loan amount up to HK\$25,000,000. As at the date of this report, the Company had withdrawn an accumulated amount of approximately HK\$18,000,000. The lender has agreed not to demand for repayment until the completion of the fund raising exercise after the shares of the Company have been resumed for trading and the Company is in a position to do so.

(b) Rights issue

On 24 February 2016, the Company entered into an underwriting agreement with an underwriter to raise fund of approximately HK\$262 million (before expenses) by way of a right issue (the "Rights Issue") which subject to fulfillment of certain conditions precedent pursuant to the underwriting agreement, is expected to be completed in May 2016, for the purposes of general working capital and debt repayment.

(d) Further funding from the Timber Logging Subscribers, the Plantation Partner and the Plantation Subscribers

As mentioned above, the Working Capital Loan provided by the Timber Logging Subscribers and further funding provided by the Plantation Partner and the Plantation Subscribers will be applied to carry out the timber logging and plantation business of the three forests.

In light of all the measures having been adopted and arrangements implemented, the Group will have sufficient cash resources to satisfy its future working capital and other financial requirements the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis, notwithstanding the Group's financial and liquidity position as at 31 December 2012. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Notes to Consolidated Financial Statements

31 December 2012

2.2 EARLY ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on after 1 January 2012, 2013 and 2014. The Group has early adopted/adopted these new and revised HKFRSs in preparing the consolidated financial statements for the year ended 31 December 2012. The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidated financial statements.

| | |
|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| HKFRS 1 Amendments | Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters |
| HKFRS 7 Amendments | Amendments to HKFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets |
| HKAS 12 Amendments | Amendments to HKAS 12 Income Taxes — Deferred Tax: Recovery of Underlying Assets |
| HKFRS 1 Amendments | Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans |
| HKFRS 7 Amendments | Amendments to HKFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities |
| HKFRS 10 | Consolidated Financial Statements |
| HKFRS 11 | Joint Arrangements |
| HKFRS 12 | Disclosure of Interests in Other Entities |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — Transition Guidance |
| HKFRS 13 | Fair Value Measurement |
| HKAS 1 Amendments | Amendments to HKAS 1 Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income |
| HKAS 19 (2011) | Employee Benefits |
| HKAS 27 (2011) | Separate Financial Statements |
| HKAS 28 (2011) | Investments in Associates and Joint ventures |
| HKAS 36 Amendments | Amendments to HKAS 36 Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets (early adopted) |
| HK(IFRIC)-Int 20 | Stripping Costs in the Production Phase of Surface Mine |
| Annual Improvements 2009-2011 Cycle | Amendments to a number of HKFRSs issued in June 2012 |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) | Investment Entities |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| HK(IFRIC)-Int 21 | Levies |
| Amendment to HKFRS 2 included in Annual Improvements 2010-2012 Cycle | Definition of Vesting Condition ¹ |
| Amendment to HKFRS 3 included in Annual Improvements 2010-2012 Cycle | Accounting for Contingent Consideration in a Business Combination ¹ |
| Amendment to HKFRS 13 included in Annual Improvements 2010-2012 Cycle | Short-term Receivables and Payables |
| Amendment to HKFRS 1 Included in Annual Improvements 2011-2013 Cycle | Meaning of Effective HKFRSs |

¹ Effective from 1 July 2014

Notes to Consolidated Financial Statements

31 December 2012

2.2 EARLY ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Other than as further explained below regarding the impact of HKAS 12 Amendments, HKFRS 10, HKFRS 13, HKAS 1 Amendments, HKFRS 10 Amendments and HKFRS 13 Amendments, the adoption of the revised HKFRSs has had no significant financial effect on these consolidated financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

- (a) The HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 Income Taxes — Recovery of Revalued Non-Depreciable Assets that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis.

The presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sales has been rebutted by the Group as the Group's investment properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly deferred tax has been determined on the basis of recovery through use. The adoption of the amendments did not have any impact on the financial position or performance of the Group.

- (b) HKFRS 10 replaces the portion of HKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 Consolidation — Special Purpose Entities. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of application of HKFRS 10, the Group has changed the accounting policy with respect to determine which investees are controlled.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2012.

- (c) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended.
- (d) HKAS 1 Amendments: Amendments to HKAS 1 Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income

HKAS 1 Amendments: Amendments to HKAS 1 Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on transaction of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected presentation only and have had no impact on the financial position or performance of the Group. In addition, the Group has chosen to use the new title "consolidated statement of profit or loss" as introduced by the amendments in these consolidated financial statements.

Notes to Consolidated Financial Statements

31 December 2012

2.2 EARLY ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

- (e) Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in HKFRS 10.
- (f) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

2.3 NEW AND REVISED HKFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

The Group has not applied the following new and revised HKFRSSs, that have been issued but are not yet effective, in these consolidated financial statements.

| | |
|-------------------------------------------|-----------------------------------------------------------------------------------------------------|
| HKFRS 9 | Financial Instruments ⁴ |
| Amendments to HKFRS 10 And HKAS 28 (2011) | Sales or Contribution of Assets between an Investor and its Associate or Joint Venture ² |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations ² |
| HKFRS 14 | Regulatory Deferral Accounts ⁵ |
| HKFRS 15 | Revenue from Contracts with Customers ³ |
| Amendments to HKAS 16 And HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation ² |
| Amendments to HKAS 16 And HKAS 41 | Agriculture: Bearer Plants ² |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions ¹ |
| Amendments to HKAS 27 (2011) | Equity Method in Separate Financial Statements ² |
| Annual Improvements 2010-2012 Cycle | Amendments to a number of HKFRSSs ¹ |
| Annual Improvements 2011-2013 Cycle | Amendments to a number of HKFRSSs ¹ |
| Annual Improvements 2012-2014 Cycle | Amendments to a number of HKFRSSs ² |

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 January 2018

⁵ Effective for an entity that first adopts HKFRSSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance, Cap. 622 will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of impact of these changes.

Further information about those HKFRSSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

Notes to Consolidated Financial Statements

31 December 2012

2.3 NEW AND REVISED HKFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (Continued)

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The Annual Improvements to HKFRSs 2010-2012 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 Operating Segments: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) right arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

The results of associates are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its biological assets, at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, biological assets, intangible assets, goodwill and inventory), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or joint controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|--------------------------------|---------------------------------------------------------|
| Building | Shorter of 50 years and the unexpired term of the lease |
| Constructed roads | 3% |
| Medical equipment | 17% |
| Motor vehicles | 20% |
| Plant, machinery and equipment | 20% — 33% |
| Leasehold improvement | Over lease term |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Biological assets

Biological assets, which include mature and immature rubber plantations, are stated at fair value less costs that would be necessary to sell the assets, with any resultant gain or loss recognised in the consolidated statement of profit or loss.

The fair value of the rubber plantations is estimated by reference to estimations and management judgement using the discounted cash flows of the underlying biological assets.

The expected cash flows from the whole life cycle of the rubber plantations are determined using market prices and the estimated yield of the agricultural produce, net of maintenance and harvesting costs and any costs required to bring the rubber plantations to maturity. The estimated yield of the rubber plantations is dependent on the age of the rubber trees, the location of the plantations, soil type and infrastructure. The market prices of the produce are largely dependent on the prevailing market prices of rubber.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

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

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

Timber logging rights

Timber logging rights acquired separately by the Group are intangible assets and are stated at cost less accumulated amortisation and any impairment losses. These timber logging rights give the Group rights to log trees in the allocated concession forest land in Kratie District, Kratie Province, Kingdom of Cambodia ("Cambodia"). Amortisation is charged on a unit-of-production basis, whereby the annual amortisation amount is determined based on the actual logging volume for the year to the projected total standing volume of the timber in the concessioned forest land. These timber logging rights may be impaired whenever there is an indication that the timber logging rights are assessed for impairment.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss on the straight-line basis over the lease terms.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the consolidated statement of profit or loss. The loss arising from impairment is recognised in the consolidated statement of profit or loss in finance costs for loans and in other expenses for receivables.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the consolidated statement of profit or loss. The loss arising from impairment is recognised in the consolidated statement of profit or loss in other expenses.

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the consolidated statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

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

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

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost *(Continued)*

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss, is removed from other comprehensive income and recognised in the consolidated statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss — is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include other payables and accruals.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the consolidated statement of profit or loss does not include any interest charged on these financial liabilities.

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

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the provision of services, when the services are rendered; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the consolidated financial statements.

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

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The PRC subsidiaries of the Group participate in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employee salaries and are charged to profit or loss as they become payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 5% and 13% has been applied to the expenditure on the individual assets.

Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Notes to Consolidated Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their consolidated statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provision are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Notes to Consolidated Financial Statements

31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of goodwill and intangible assets

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was HK\$Nil (2011: HK\$18,579,000). Further details are given in note 19 to the consolidated financial statements.

In considering the impairment losses that may be required for the Group's intangible assets, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for these assets may not be readily available.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including these current creditworthiness and the past collection history of each customer.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset.

Notes to Consolidated Financial Statements

31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Fair value of biological assets

The Group's biological assets are valued at fair value less costs to sell. In determining the fair value of the biological assets, management has applied the income approach which requires a number of key assumptions and estimates to be made such as discount rate, log prices, plantation costs, growth and harvesting costs. Any changes in these estimates may affect the fair value of the biological assets significantly. The professional valuer and management review the assumptions and estimates periodically to identify any significant changes in the fair values of biological assets.

4. OPERATING SEGMENT INFORMATION

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

- (a) the forestry and agricultural segment is the timber logging, plantation and sales of wood and agricultural products;
- (b) the basic goods business segment is the processing and distribution of the basic goods; and
- (c) the resources and logistics segment is the provision of resources and logistics business.

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

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Notes to Consolidated Financial Statements

31 December 2012

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2012

| | Forestry and agricultural segment HK\$'000 | Basic goods business segment HK\$'000 | Resources and logistics segment HK\$'000 | Total HK\$'000 |
|-------------------------------------------------------------------|-----------------------------------------------------|------------------------------------------------|---------------------------------------------------|-------------------|
| Segment revenue: | | | | |
| Sales of wood and agricultural products | 6,313 | — | — | 6,313 |
| | 6,313 | — | — | 6,313 |
| Segment results | (107,690) | — | (2,869) | (110,559) |
| Share of profit of associates | — | 25,909 | — | 25,909 |
| Other income and gains | — | — | — | 19,600 |
| Gain on disposal of a subsidiary | — | — | — | 329 |
| Impairment loss on property, plant and equipment | (9,608) | — | (5,904) | (15,512) |
| Impairment loss on prepayments, deposits and other receivables | — | — | (2,038) | (2,038) |
| Write-down of inventories to net realisable value | (819) | — | — | (819) |
| Impairment loss on intangible assets | (460,186) | — | — | (460,186) |
| Impairment loss on goodwill arising from a subsidiary | — | — | (18,579) | (18,579) |
| Impairment loss on biological assets | (31,766) | — | — | (31,766) |
| Unallocated expenses | | | | (6,498) |
| Loss from operations | | | | (600,119) |
| Finance costs | | | | — |
| Loss before tax | | | | (600,119) |
| Income tax expense | | | | — |
| Loss for the year | | | | (600,119) |
| Segment assets | 352,450 | 147,274 | 5,760 | 505,484 |
| Unallocated assets | | | | 436 |
| Total assets | | | | 505,920 |
| Segment liabilities | (53,118) | — | (5,660) | (58,778) |
| Unallocated liabilities | | | | (9,362) |
| Total liabilities | | | | (68,140) |
| Capital expenditure | 19,003 | — | — | 19,003 |
| Unallocated capital expenditure | | | | — |
| | | | | 19,003 |
| Depreciation and amortisation | 94,839 | — | 2,198 | 97,037 |
| Unallocated depreciation and amortisation | | | | 26 |
| | | | | 97,063 |

Notes to Consolidated Financial Statements

31 December 2012

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2011

| | Forestry and agricultural segment HK\$'000 | Basic goods business segment HK\$'000 | Resources and logistics segment HK\$'000 | Total HK\$'000 |
|-------------------------------------------|-----------------------------------------------------|------------------------------------------------|---------------------------------------------------|-------------------|
| Segment revenue: | | | | |
| Sales of wood and agricultural products | 59 | — | — | 59 |
| Sales of coal | — | — | 145 | 145 |
| | 59 | — | 145 | 204 |
| Segment results | (45,948) | — | 4,219 | (41,729) |
| Other income and gains | | | | 58 |
| Unallocated expenses | | | | (9,361) |
| Loss from operations | | | | (51,032) |
| Finance costs | | | | (8,743) |
| Loss before tax | | | | (59,775) |
| Income tax expense | | | (1,540) | (1,540) |
| Loss for the year | | | | (61,315) |
| Segment assets | 929,521 | 120,968 | 35,964 | 1,086,453 |
| Unallocated assets | | | | 925 |
| Total assets | | | | 1,087,378 |
| Segment liabilities | 29,721 | — | 7,447 | 37,168 |
| Unallocated liabilities | | | | 8,972 |
| Total liabilities | | | | 46,140 |
| Capital expenditure | 29,884 | — | 9,717 | 39,601 |
| Unallocated capital expenditure | | | | 43 |
| | | | | 39,644 |
| Depreciation and amortisation | 82,562 | — | 1,837 | 84,399 |
| Unallocated depreciation and amortisation | | | | 619 |
| | | | | 85,018 |

Notes to Consolidated Financial Statements

31 December 2012

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

| | 2012 HK\$'000 | 2011 HK\$'000 |
|----------------|------------------|------------------|
| Hong Kong | — | — |
| Mainland China | — | 145 |
| Cambodia | 6,313 | 59 |
| | 6,313 | 204 |

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets

| | 2012 HK\$'000 | 2011 HK\$'000 |
|----------------|------------------|------------------|
| Hong Kong | 43 | 69 |
| Mainland China | 147,274 | 147,597 |
| Cambodia | 330,755 | 909,060 |
| | 478,072 | 1,056,726 |

The non-current asset information of continuing operations above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

Revenue from the forestry and agricultural segment of approximately HK\$3,199,000 (2011: HK\$59,000) was derived from sales to a single customer.

Notes to Consolidated Financial Statements

31 December 2012

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after trade discounts and related turnover taxes, received and receivable from the independent third parties during the year.

An analysis of revenue, other income and gains is as follows:

| | 2012 HK\$'000 | 2011 HK\$'000 |
|------------------------------------------------------------------------------------------------|------------------|------------------|
| Revenue | | |
| Sales of wood and agricultural products | 6,313 | 59 |
| Sales of coal | — | 145 |
| Total revenue | 6,313 | 204 |
| Other income and gains | | |
| Bank interest income | — | 10 |
| Brokerage fees | — | 7,848 |
| Gain on the deregistration of a subsidiary (note 33) | 7,271 | — |
| Gain on disposal of a subsidiary (note 32) | 329 | — |
| Gain on disposal of property, plant and equipment | 42 | 14 |
| Compensation for the profit guarantee [#] | 1,616 | — |
| Compensation from a former director [^] | 10,713 | — |
| Others | 317 | 333 |
| Total other income and gains | 20,288 | 8,205 |
| Total revenue, other income and gains | 26,601 | 8,409 |
| Revenue | | |
| Attributable to continuing operations reported the consolidated statement of profit or loss | 6,313 | 204 |
| Attributable to discontinued operation (note 12) | — | — |
| | 6,313 | 204 |
| Other income and gains | | |
| Attributable to continuing operations reported in the consolidated statement of profit or loss | 20,288 | 8,204 |
| Attributable to discontinued operation (note 12) | — | 1 |
| | 20,288 | 8,205 |
| | 26,601 | 8,409 |

[#] Compensation of approximately HK\$1,616,000 to the Company pursuant to the profit guarantee under the sale purchase agreement for the Group's acquisition of the first forest in 2007.

[^] During the year ended 31 December 2012, the Company received a compensation of HK\$10,713,000 from the former executive director and chief executive officer, Mr. Li Wo Hing relating to his misconduct in the past (including the cost of the proceedings of the Company).

Notes to Consolidated Financial Statements

31 December 2012

6. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

Loss before tax from continuing operations is arrived at after charging/(crediting):

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--------------------------------------------------------------------------|--------------------------------|------------------|
| Cost of goods sold: | | |
| Continuing operations | 5,062 | 122 |
| Discontinued operation (note 12) | — | — |
| | 5,062 | 122 |
| Auditors' remuneration: | | |
| Annual audit | 1,400 | 1,011 |
| Other assurance services | 249 | 342 |
| | 1,649 | 1,353 |
| Amortisation of intangible assets (note 18) | 91,201 | 12,734 |
| Depreciation of property, plant and equipment* (note 15) | 5,862 | 4,985 |
| Write-off of property, plant and equipment (note 15) | 724 | 79 |
| Write-down of inventories to net realisable value (note 21) | 819 | 869 |
| Impairment loss on property, plant and equipment (note 15) | 15,512 | — |
| Impairment loss on biological assets (note 16) | 31,766 | — |
| Impairment loss on intangible assets (note 18) | 460,186 | — |
| Impairment loss on goodwill arising from a subsidiary (note 19) | 18,579 | — |
| Impairment loss on trade receivables (note 22) | — | 916 |
| Impairment loss on prepayments, deposits and other receivables (note 23) | 2,038 | 6,084 |
| Minimum lease payments under operating leases: | | |
| Land and buildings | 984 | 1,110 |
| Staff costs (excluding directors' remuneration (note 8)): | | |
| Wages and salaries | 4,918 | 11,341 |
| Equity-settled share option expenses | — | 696 |
| Pension scheme contributions | 54 | 74 |
| | 4,972 | 12,111 |
| Bank interest income | — | (9) |
| Gain on the deregistration of a subsidiary (note 33) | (7,271) | — |
| Gain on disposal of a subsidiary (note 32) | (329) | — |
| Gain on disposal of property, plant and equipment | (42) | (14) |
| Compensation for the profit guarantee | (1,616) | — |
| Compensation from a former director | (10,713) | — |

* During the years ended 31 December 2012 and 2011, the depreciation of property, plant and equipment of approximately HK\$776,000 and HK\$567,000 respectively, were included in cost of goods sold in the consolidated statement of profit or loss.

Notes to Consolidated Financial Statements

31 December 2012

7. FINANCE COSTS

| | 2012 HK\$'000 | 2011 HK\$'000 |
|-----------------------------------------|--------------------------------|------------------|
| Interest on convertible bonds (note 26) | — | 8,743 |

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

| | 2012 HK\$'000 | 2011 HK\$'000 |
|-------------------------------------------|--------------------------------|------------------|
| Fees | 360 | 414 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 1,061 | 1,106 |
| Pension scheme contributions | — | 12 |
| Equity-settled share option expenses* | — | 282 |
| | 1,061 | 1,400 |
| Total | 1,421 | 1,814 |

Note:

* In prior years, the Directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 28 to the consolidated financial statements. The fair value of such options which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above directors' remuneration disclosures.

Notes to Consolidated Financial Statements

31 December 2012

8. DIRECTORS' REMUNERATION (Continued)

| | Fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Pension scheme contributions HK\$'000 | Share-based payments HK\$'000 | Total HK\$'000 |
|--------------------------------------------------------------------------------|------------------|----------------------------------------------------------------|------------------------------------------------|-------------------------------------|-------------------|
| 2012 | | | | | |
| Executive directors | | | | | |
| Leung Sze Yuan, Alan (resigned in March 2015) | — | 581 | — | — | 581 |
| Chultemsuren Gankhuyag (resigned in May 2015) | — | 120 | — | — | 120 |
| Zeng Lingchen | — | 180 | — | — | 180 |
| Gong Ting ("Mr. Gong") (resigned in September 2014) | — | 180 | — | — | 180 |
| Yu Xiao Min (appointed in February 2012) | — | — | — | — | — |
| | — | 1,061 | — | — | 1,061 |
| Independent non-executive directors | | | | | |
| Tam Wai Leung, Joseph (resigned in October 2012) | 90 | — | — | — | 90 |
| Zhang Ying (resigned in September 2014) | 120 | — | — | — | 120 |
| Wen Huiying (resigned in March 2015) | 120 | — | — | — | 120 |
| Hong Binxian (appointed in October 2012) | 30 | — | — | — | 30 |
| | 360 | — | — | — | 360 |
| | 360 | 1,061 | — | — | 1,421 |
| 2011 | | | | | |
| Executive directors | | | | | |
| Leung Sze Yuan, Alan (resigned in March 2015) | — | 552 | 12 | 282 | 846 |
| Zhang Zhenzhong (resigned in March 2011) | — | 75 | — | — | 75 |
| Chultemsuren Gankhuyag (appointed in January 2011 and resigned in May 2015) | — | 119 | — | — | 119 |
| Zeng Lingchen | — | 180 | — | — | 180 |
| Gong Ting (resigned in September 2014) | — | 180 | — | — | 180 |
| | — | 1,106 | 12 | 282 | 1,400 |
| Independent non-executive directors | | | | | |
| Tam Wai Leung, Joseph (resigned in October 2012) | 120 | — | — | — | 120 |
| Chan Kim Chung, Daniel (resigned in June 2011) | 53 | — | — | — | 53 |
| Zhang Ying (resigned in September 2014) | 120 | — | — | — | 120 |
| Wen Huiying (resigned in March 2015) | 121 | — | — | — | 121 |
| | 414 | — | — | — | 414 |
| | 414 | 1,106 | 12 | 282 | 1,814 |

Notes to Consolidated Financial Statements

31 December 2012

8. DIRECTORS' REMUNERATION (Continued)

During the year, there was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil) and no emoluments have been paid to the directors as an inducement to join or upon joining the Group; or as compensation for loss of office (2011: Nil).

The number of directors, whose remuneration fell within the following bands is as follows:

| | Number of directors | |
|--------------------------------|---------------------|------|
| | 2012 | 2011 |
| Nil to HK\$1,000,000 | 9 | 9 |
| HK\$1,000,001 to HK\$2,000,000 | — | — |
| HK\$2,000,001 to HK\$3,000,000 | — | — |
| | 9 | 9 |

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2011: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2011: four) non-directors, highest paid employees for the year are as follows:

| | 2012 HK\$'000 | 2011 HK\$'000 |
|-------------------------------------------|------------------|------------------|
| Salaries, allowances and benefits in kind | 1,151 | 2,704 |
| Equity-settled share option expenses | — | 576 |
| Pension scheme contributions | 24 | 48 |
| | 1,175 | 3,328 |

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of individuals | |
|----------------------|-----------------------|------|
| | 2012 | 2011 |
| Nil to HK\$1,000,000 | 2 | 4 |

Notes to Consolidated Financial Statements

31 December 2012

10. INCOME TAX EXPENSES

Hong Kong

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: Nil).

PRC

Under the Corporate Income Tax Law, the corporate income tax ("CIT") is calculated at a rate of 25%. CIT has not been provided as the Group did not generate any assessable profits arising in the PRC during the years ended 31 December 2011 and 2012.

Kingdom of Cambodia ("Cambodia")

Under the Cambodian Law on Taxation, the Cambodian corporate income tax ("CCIT") is calculated at a rate of 20%. The CCIT has not been provided as the Group did not generate any assessable profits arising in Cambodia during the years ended 31 December 2011 and 2012.

Taxes on profits in respect of the Group companies operating elsewhere have been calculated at the rates of tax prevailing in the respective tax countries/jurisdictions in which they operate based on existing legislation, interpretations and practices in respect thereof.

| | 2012 HK\$'000 | 2011 HK\$'000 |
|-------------------------------|------------------|------------------|
| Current tax: | | |
| Hong Kong | — | — |
| PRC corporate income tax | — | 1,540 |
| Cambodia | — | — |
| Elsewhere | — | — |
| Deferred tax | — | 1,540 |
| Total tax charge for the year | — | 1,540 |

Notes to Consolidated Financial Statements

31 December 2012

10. INCOME TAX EXPENSES (Continued)

A reconciliation of the tax expense applicable to loss before tax from continuing operations at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

| | 2012 | | 2011 | |
|-----------------------------------------------------------------|------------------|---------------|----------|--------|
| | HK\$'000 | % | HK\$'000 | % |
| Loss before tax from continuing operations | (600,119) | | (59,624) | |
| Tax at the statutory tax rate | (122,146) | 20.4 | (10,161) | 17.0 |
| Tax effect of share of profit of an associate | (4,275) | 0.7 | — | — |
| Income not subject to tax: | | | | |
| Compensation from a former director | (1,768) | 0.3 | — | — |
| Gain on disposal of a subsidiary | (54) | — | — | — |
| Write back of liabilities on the deregistration of a subsidiary | (1,830) | 0.3 | — | — |
| Compensation for the profit guarantee | (267) | — | — | — |
| Others | (1,489) | 0.2 | (96) | 0.2 |
| Expenses not deductible for tax: | | | | |
| Impairment loss on prepayments, deposits and other receivables | 509 | (0.1) | 1,003 | (1.7) |
| Impairment loss on biological assets | 7,344 | (1.2) | — | — |
| Impairment loss on intangible assets | 96,682 | (16.1) | — | — |
| Professional and other expenses not deductible for tax | 25,636 | (4.2) | 6,295 | (10.6) |
| Tax loss not recognised | 1,658 | (0.3) | 4,499 | (7.5) |
| Tax charge at effective tax rate | — | — | 1,540 | (2.6) |

The Group had deferred tax assets not recognised in respect of tax losses available for offsetting future assessable profits and accelerated depreciation calculated at the rate of 20% as follows:

| | 2012 HK\$ | 2011 HK\$ |
|--------------------------|---------------|--------------|
| Tax losses* | 51,264 | 42,973 |
| Accelerated depreciation | — | — |
| | 51,264 | 42,973 |

Notes to Consolidated Financial Statements

31 December 2012

10. INCOME TAX EXPENSES (Continued)

Kingdom of Cambodia (“Cambodia”) (Continued)

* The expiry date of the above tax losses were as follows:

| | 2012 HK\$'000 | 2011 HK\$'000 |
|------|------------------|------------------|
| 2013 | 4,147 | 4,147 |
| 2014 | 7,079 | 7,079 |
| 2015 | 9,252 | 9,252 |
| 2016 | 22,495 | 22,495 |
| 2017 | 8,291 | — |
| | 51,264 | 42,973 |

11. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2012 includes a profit of HK\$5,799,000 (2011: HK\$19,611,000) which has been dealt with in the financial statements of the Company (note 29(b)).

12. DISCONTINUED OPERATION

Development and sale of tropical plants for universe drugs and medicine usage business was discontinued during the year ended 31 December 2011.

During the year ended 31 December 2011, the Group had decided to dispose of the 100% equity interest in Guilin Simei and Biotechnology Limited (“Guilin”) at a consideration of HK\$220,000. Guilin engaged in the development and sale of tropical plants for universe drugs and medicine usage business. The disposal had been completed on 31 January 2012. As at 31 December 2011, final negotiation for the sale was in progress and the subsidiary was classified as a disposal group held for sale during the year ended 31 December 2011.

Notes to Consolidated Financial Statements

31 December 2012

12. DISCONTINUED OPERATION (Continued)

The results of development and sale of tropical plants for universe drugs and medicine usage business:

| | 2011 HK\$'000 |
|-----------------------------------------------|------------------|
| Revenue | — |
| Expenses | (151) |
| Loss before taxation | (151) |
| Income tax expenses | — |
| Loss for the year from discontinued operation | (151) |

The major classes of assets and liabilities of Guilin classified as held for sale as at 31 December 2011 are as follows:

| | 2011 HK\$'000 |
|-----------------------------------------------------------------------|------------------|
| Assets | |
| Property, plant and equipment (note 15) | 37 |
| Cash and bank balances | 1 |
| Assets classified as held for sale | 38 |
| Liability | |
| Other payables and accruals | (538) |
| Liability directly associated with assets classified as held for sale | (538) |
| Net liabilities directly associated with Guilin as held for sale | (500) |

Notes to Consolidated Financial Statements

31 December 2012

12. DISCONTINUED OPERATION (Continued)

The net cash flows incurred are as follows:

| | 2011 HK\$'000 |
|---------------------------------------|------------------|
| Net cash used in operating activities | (145) |
| Net cash from investing activities | 1 |
| Net cash from financing activity | — |
| Net cash outflow | (144) |

| | 2011 HK\$'000 |
|------------------------------------------|------------------|
| Loss per share: | |
| Basic, from the discontinued operation | (0.01) cents |
| Diluted, from the discontinued operation | (0.01) cents |

The calculations of basic and diluted loss per share from the discontinued operation for the year ended 31 December 2011 are based on:

| | 2011 HK\$'000 |
|---------------------------------------------------------------------------------------------|------------------|
| Loss attributable to ordinary equity holders of the Company from the discontinued operation | (151) |
| | (151) |

| | Number of shares (thousand) |
|-------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| | 2011 |
| Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation (<i>note 14</i>) | 1,902,322 |
| Weighted average number of ordinary shares used in the diluted loss per share calculation (<i>note 14</i>)* | 1,902,322 |

* Diluted loss per share for the year ended 31 December 2011 had not been prepared, as the exercise of share options and the convertible bonds outstanding during the year had an anti-dilutive effect on the basic loss per share.

Notes to Consolidated Financial Statements

31 December 2012

13. DIVIDENDS

The directors did not recommend a final dividend for the year ended 31 December 2012 (2011: Nil).

14. LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculations of basic loss per share are based on:

| | 2012 <i>HK\$'000</i> | 2011 <i>HK\$'000</i> |
|-------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------------------|
| Loss | | |
| Loss for the year attributable to ordinary equity holders of the Company, used in the basic loss per share calculation: | | |
| From continuing operations | (600,119) | (61,161) |
| From discontinued operation | — | (151) |
| | (600,119) | (61,312) |

| | Number of shares (thousand) | |
|-----------------------------------------------------------------------------------------|------------------------------------|-----------|
| | 2012 | 2011 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in basic loss: | | |
| Issued ordinary shares at 1 January | 2,623,951 | 778,540 |
| Effect of issuance of placing of shares | — | 104,926 |
| Effect of issuance of the consideration shares | — | 107,380 |
| Effect of conversion shares from convertible bonds | — | 911,476 |
| | 2,623,951 | 1,902,322 |

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

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the impact of the share options and the convertible bonds outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

Notes to Consolidated Financial Statements

31 December 2012

15. PROPERTY, PLANT AND EQUIPMENT

(a) Group

| | Buildings HK\$'000 | Constructed roads HK\$'000 | Medical equipment HK\$'000 | Motor vehicles HK\$'000 | Plant, machinery and equipment HK\$'000 | Leasehold improvements HK\$'000 | Total HK\$'000 |
|---------------------------------------------------------------------------|-----------------------|----------------------------------|----------------------------------|-------------------------------|--------------------------------------------------|---------------------------------------|-------------------|
| 31 December 2012 | | | | | | | |
| At 1 January 2012: | | | | | | | |
| Cost | 6,865 | 21,239 | 430 | 1,677 | 24,733 | 43 | 54,987 |
| Accumulated depreciation | (1,609) | (1,507) | (430) | (827) | (7,815) | (6) | (12,194) |
| Net carrying amount | 5,256 | 19,732 | — | 850 | 16,918 | 37 | 42,793 |
| At 1 January 2012, net of accumulated depreciation | 5,256 | 19,732 | — | 850 | 16,918 | 37 | 42,793 |
| Additions | 32 | 2,680 | — | — | 360 | — | 3,072 |
| Write-off | (724) | — | — | — | — | — | (724) |
| Disposals | — | — | — | (134) | (51) | — | (185) |
| Deregistration of a subsidiary (note 33) | — | — | — | — | (2) | — | (2) |
| Reclassified | (11) | 11 | — | — | — | — | — |
| Depreciation provided during the year | (913) | (713) | — | (236) | (3,992) | (8) | (5,862) |
| Impairment loss (notes (i) and 30) | — | (9,608) | — | — | (5,904) | — | (15,512) |
| Exchange realignment | — | — | — | — | 54 | — | 54 |
| At 31 December 2012, net of accumulated depreciation and impairment | 3,640 | 12,102 | — | 480 | 7,383 | 29 | 23,634 |
| At 31 December 2012: | | | | | | | |
| Cost | 4,854 | 24,043 | — | 1,154 | 25,040 | 43 | 55,134 |
| Accumulated depreciation and impairment | (1,214) | (11,941) | — | (674) | (17,657) | (14) | (31,500) |
| Net carrying amount | 3,640 | 12,102 | — | 480 | 7,383 | 29 | 23,634 |

Notes to Consolidated Financial Statements

31 December 2012

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Group (Continued)

| | Buildings HK\$'000 | Constructed roads HK\$'000 | Medical equipment HK\$'000 | Motor vehicles HK\$'000 | Plant, machinery and equipment HK\$'000 | Leasehold improvements HK\$'000 | Total HK\$'000 |
|-----------------------------------------------------------|-----------------------|----------------------------------|----------------------------------|-------------------------------|--------------------------------------------------|---------------------------------------|-------------------|
| 31 December 2011 | | | | | | | |
| At 1 January 2011: | | | | | | | |
| Cost | 5,403 | 24,169 | 426 | 2,297 | 883 | — | 33,178 |
| Accumulated depreciation | (786) | (815) | (399) | (1,187) | (477) | — | (3,664) |
| Net carrying amount | 4,617 | 23,354 | 27 | 1,110 | 406 | — | 29,514 |
| At 1 January 2011, net of accumulated depreciation | 4,617 | 23,354 | 27 | 1,110 | 406 | — | 29,514 |
| Acquisition of subsidiaries (note 30) | — | — | — | — | 9,717 | — | 9,717 |
| Additions | 1,597 | 1,807 | — | 195 | 9,727 | 43 | 13,369 |
| Re-classified as asset held for sale (notes 12 and 32) | (36) | — | — | — | (1) | — | (37) |
| Transfer to biological assets (note 16) | — | (4,737) | — | — | — | — | (4,737) |
| Disposals | — | — | — | (121) | (5) | — | (126) |
| Write off | (79) | — | — | — | — | — | (79) |
| Depreciation provided during the year | (840) | (692) | (27) | (333) | (3,087) | (6) | (4,985) |
| Exchange realignment | (3) | — | — | (1) | 161 | — | 157 |
| At 31 December 2011, net of accumulated depreciation | 5,256 | 19,732 | — | 850 | 16,918 | 37 | 42,793 |
| At 31 December 2011: | | | | | | | |
| Cost | 6,865 | 21,239 | 430 | 1,677 | 24,733 | 43 | 54,987 |
| Accumulated depreciation | (1,609) | (1,507) | (430) | (827) | (7,815) | (6) | (12,194) |
| Net carrying amount | 5,256 | 19,732 | — | 850 | 16,918 | 37 | 42,793 |

Notes:

- (i) The Group's buildings and constructed roads are located in Cambodia. During the year ended 31 December 2012, the Group provided an impairment of the constructed road of approximately HK\$9,608,000 as the directors are of the opinion that the net carrying amount exceeded its recoverable amount. Therefore, the net carrying amount of the Group's buildings and constructed roads 31 December 2012 of HK\$3,640,000 and HK\$12,102,000, respectively, (2011: HK\$5,256,000 and HK\$19,732,000, respectively) were stated at cost less accumulated depreciation and impairment.
- (ii) The Group's medical equipment had been disposed of through the disposal of the related subsidiary (note 32) during the year ended 31 December 2012.

Notes to Consolidated Financial Statements

31 December 2012

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Company

| | Leasehold improvements HK\$'000 | Computer equipment HK\$'000 | Total HK\$'000 |
|------------------------------------------------------|---------------------------------------|-----------------------------------|-------------------|
| 31 December 2012 | | | |
| At 1 January 2012: | | | |
| Cost | 43 | 189 | 232 |
| Accumulated depreciation | (6) | (167) | (173) |
| Net carrying amount | 37 | 22 | 59 |
| At 1 January 2012, net of accumulated depreciation | 37 | 22 | 59 |
| Depreciation provided during the year | (9) | (15) | (24) |
| At 31 December 2012, net of accumulated depreciation | 28 | 7 | 35 |
| At 31 December 2012: | | | |
| Cost | 43 | 189 | 232 |
| Accumulated depreciation | (15) | (182) | (197) |
| Net carrying amount | 28 | 7 | 35 |
| | Leasehold improvements HK\$'000 | Computer equipment HK\$'000 | Total HK\$'000 |
| 31 December 2011 | | | |
| At 1 January 2011: | | | |
| Cost | — | 189 | 189 |
| Accumulated depreciation | — | (152) | (152) |
| Net carrying amount | — | 37 | 37 |
| At 1 January 2011, net of accumulated depreciation | — | 37 | 37 |
| Additions | 43 | — | 43 |
| Depreciation provided during the year | (6) | (15) | (21) |
| At 31 December 2011, net of accumulated depreciation | 37 | 22 | 59 |
| At 31 December 2011: | | | |
| Cost | 43 | 189 | 232 |
| Accumulated depreciation | (6) | (167) | (173) |
| Net carrying amount | 37 | 22 | 59 |

Notes to Consolidated Financial Statements

31 December 2012

16. BIOLOGICAL ASSETS

| | Group | |
|----------------------------------------------------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| At 1 January | 21,295 | — |
| Transfer from property, plant and equipment (<i>note 15</i>) | — | 4,737 |
| Additions | 10,471 | 16,558 |
| Impairment (<i>note 6</i>) | (31,766) | — |
| Change in fair value | — | — |
| At 31 December | — | 21,295 |

(a) Analysis of biological assets

| | 2012 Hectares | 2011 Hectares |
|--------------------------------|------------------|------------------|
| Planted area — Immature plants | 1,935 | 1,685 |

- (b) As at the end of reporting date, the original cost of biological assets amounting to approximately HK\$31,766,000 (2011: HK\$21,295,000) comprising the cost for the land clearing and plantation incurred during the year ended 31 December 2012. The Group's biological assets represent the land clearing and plantation costs incurred for existing rubber trees and were stated at its fair value as at the end of each reporting period. Subsequently, all of biological assets were destroyed by fire and dead and accordingly, the Group made a full impairment on the biological assets during the year ended 31 December 2012.

Fair value of the biological assets

As at 31 December 2012, the fair value of the biological assets were revalued by Peak Vision Appraisals Limited ("Peak Vision"), the independent professional valuers.

Based on the valuation report dated 29 January 2016, the biological assets did not have commercial value as at 31 December 2012 and no further change in fair value of the biological assets were recognised.

17. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|--------------------------------------------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Unlisted shares, at cost | 5,490 | 8,096 |
| Less: Impairment loss on investments in subsidiaries | (4,130) | — |
| | 1,360 | 8,096 |
| Due from subsidiaries | 997,385 | 987,243 |
| Less: Impairment loss on amounts due from subsidiaries | (644,450) | — |
| | 352,935 | 987,243 |
| Due to subsidiaries | (81,274) | (205,946) |

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

Notes to Consolidated Financial Statements

31 December 2012

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries held directly and indirectly by the Company at 31 December 2012 are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued and fully paid share capital/paid-up capital | Percentage of equity attributable to the Company [#] | | Principal activities |
|---------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------------------------|------------------------------------------------------------------|----------|------------------------------------------------------------------------------------|
| | | | Direct | Indirect | |
| Future Asia Management Limited [Ⓞ] | British Virgin Islands ("BVI") | US\$20,000 | 100% | — | Investment holdings |
| Tat Lung Medical Treatment Technology Limited [Ⓞ] | Hong Kong | HK\$142,900 | — | 100% | Investment holdings |
| Tat Lung Medical Treatment (Shenzhen) Limited [Ⓞ] | People's Republic of China ("PRC") | US\$300,000 | — (2011: 100%) | — | Development of software for medical equipment |
| Guilin Simei and Biotechnology Limited ^{^, Ⓞ} | PRC | US\$1,000,000 | — (2011: 100%) | — | Development and sale of tropical plants for chinese drugs and medicine usage |
| (Cambodia) Tong Min Group Engineering Co., Ltd. [Ⓞ] | Cambodia | US\$1,000,000 | — | 100% | Forestry business and development of rubber plantation for latex production |
| Agri-industrial Crop Development (Cambodia) Co., Limited [Ⓞ] | Cambodia | US\$1,000,000 | — | 100% | Forestry business and development of rubber plantation for latex production |
| Crops and Land Development (Cambodia) Co., Limited [Ⓞ] | Cambodia | US\$1,000,000 | — | 100% | Forestry business and development of rubber plantation for latex production |
| Linkbest System Development Limited ^{Ⓞ, Ⓞ} ("Linkbest") | BVI | US\$1,000 | — | 100% | Investment holdings |
| 內蒙古華越礦業有限公司 ^{Ⓞ, Ⓞ} (literally translated as Inner Mongolia Huayue Mining Limited, "IM Mining") | PRC | RMB12,800,000 | — | 100% | Resources and related logistics service |
| 梨樹縣衛通科技有限責任公司 ^{Ⓞ, Ⓞ} | PRC | RMB500,000 | — | 100% | Trading business |
| Well Glory Capital Investment Limited | Hong Kong | HK\$10,000 | — | 100% | Investment holdings |
| Loyal Talent Limited | Hong Kong | HK\$10,000 | — | 100% | Investment holdings |
| Famous Sky Corporation Limited | Hong Kong | HK\$10,000 | 100% | — | Investment holdings |
| First Resource Equipment Technology Company Limited | Hong Kong | HK\$10,000 | 51% | — | Investment holdings |

[^] During the year ended 31 December 2012, this subsidiary was disposed.

[Ⓞ] In March 2012, this subsidiary was deregistered.

[Ⓞ] Not audited by Ascenda Cachet CPA Limited.

^{*} Obtained the control over through contractual arrangement in June 2011.

[#] All the percentage of equity attributable to the Company remained unchanged from the previous year except when otherwise indicated.

[Ⓞ] These subsidiaries were disposed of subsequent to the end of the reporting period in August 2015.

[Ⓞ] The subsidiary was disposed of subsequent to the end of the reporting period in November 2015.

Notes to Consolidated Financial Statements

31 December 2012

18. INTANGIBLE ASSETS

| | Group Timber logging rights |
|----------------------------------------------------|--------------------------------------------|
| | <i>HK\$'000</i> |
| Cost | |
| As at 1 January 2011 | 891,472 |
| Additions | — |
| At 31 December 2011 and 1 January 2012 | 891,472 |
| Additions | 5,460 |
| At 31 December 2012 | 896,932 |
| Accumulated amortisation and impairment | |
| As at 1 January 2011 | 25,647 |
| Amortisation charge for the year (<i>note 6</i>) | 12,734 |
| At 31 December 2011 and 1 January 2012 | 38,381 |
| Amortisation charge for the year (<i>note 6</i>) | 91,201 |
| Impairment (<i>note 6</i>) | 460,186 |
| At 31 December 2012 | 589,768 |
| Carrying amount | |
| At 31 December 2012 | 307,164 |
| At 31 December 2011 | 853,091 |

The Group acquired an exclusive right (the "1st Timber Logging Right") to log trees in a forest ("Forest 1") located in Kratie District, Kratie Province, Cambodia for a period of 70 years up to 13 September 2077 during the year ended 31 December 2007. The Group acquired additional two exclusive rights (together with the 1st Timber Logging Right, collectively referred to as the "Timber Logging Rights") to log trees in other two forests ("Forest 2" and "Forest 3") located in Kbal Damrei Communes, Cambodia for a period of 70 years up to 8 December 2078 and 8 December 2078 during the years ended 31 December 2008 and 2010, respectively. The Timber Logging Rights give the Group rights to log trees in Forests 1, 2 and 3 (collectively, the "Three Forest") with areas approximately 7,449, 7,000 and 7,200 hectares, respectively. Subsequent to the end of the reporting period in July 2015, the Royal Government of Cambodia issued a notification that the period of the Timber Logging Rights will be reduced from 70 years to 50 years.

Notes to Consolidated Financial Statements

31 December 2012

18. INTANGIBLE ASSETS (Continued)

Prior to 1 January 2012, the Timber Logging Rights were amortised over the concession period (the "Concession Period") of 70 years (the "Annual Amortisation Method"). During the year ended 31 December 2012, the Directors have re-assessed the method for amortisation of the Timber Logging Rights and are of the opinion that the unit of production amortisation method ("UOP Amortisation Method") will better reflect the economic substance of the timber logging transactions of the Group. Accordingly, the Group has changed its accounting policy during the year ended 31 December 2012 from the Annual Amortisation Method to the UOP Amortisation Method and the accumulated amortisation (the "2011 Additional Amortisation") of the Timber Logging Rights as at 31 December 2011 be increased by approximately HK\$39,815,000 as a result of the change to the UOP Amortisation Method. The 2011 Additional Amortisation has been recognised in the consolidated financial statements for the year ended 31 December 2012.

Impairment testing of intangible assets

The Directors engaged (i) a professional tree expert (the "Tree Expert") to determine the volume and condition of the timber (the "Timber Volume") in the Three Forests underlying the Timber Logging Rights and (ii) a professional valuer (the "Valuer") to determine the fair value of the Timber Logging Rights. However, the Tree Expert and the Valuer were initially appointed by the Group subsequent to the end of the reporting period and physical inspections and physical count of the Timber Volume were attended by the Tree Expert, the Valuer and the auditors (the "Auditors") in November 2014, and the Timber Volume as at 31 December 2011 and 2012 was calculated (the "Timber Roll Back Reconciliation") by the management based on internal records and the physical inspections and physical count in November 2014. Based on such Timber Volume, the management also determined the related amortisation and impairment for the year ended 31 December 2012 as well as the 2011 Additional Amortisation.

As at 31 December 2014, the recoverable amount of the intangible assets were revalued by Peak Vision, the independent professional valuers. With reference to the valuation report dated 29 January 2016 (the "2014 IA Valuation Report"), the Directors re-assessed the recoverable amount of the intangible assets as at 31 December 2012. Based on such reassessment, the Directors are of the opinion that the recoverable amount of the intangible assets as at 31 December 2012 was HK\$307,164,000; and therefore, the Group made a further impairment of intangible assets of approximately HK\$460,186,000 (note 6) during the year ended 31 December 2012 as its carrying amount excess its recoverable amount.

Extracted from the 2014 IA Valuation Report, key assumptions were used in the value in use calculation of the Timber Logging Right as at 31 December 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of intangible assets:

| | 2014 |
|-------------------|-------------|
| | % |
| Growth rate | |
| — Revenue | 3.73 |
| — Cost | 3.12 |
| — Trees volume | 0.73 |
| Discount rate | 21.35 |
| Concession period | 70 years |

The weighted average revenue growth rate and cost growth rate used were based on the industry research. The discount rate used was pre-tax that reflected current market assessments of the time value of money and the specific risks related to the relevant segment.

Notes to Consolidated Financial Statements

31 December 2012

18. INTANGIBLE ASSETS (Continued)

Impairment testing of intangible assets (Continued)

At each financial year, the Directors:

Pursuant to the 2014 IA Valuation Report, the fair value as at 31 December 2014 was determined based on the excess earnings method under the income approach, which used observable inputs (e.g. (i) market price of wood and rubber; and (ii) interest rate by reference to the Economic and Monetary Statistics published by the National Bank of Cambodia, etc) and taking into account the timber output amount determined by the business plan based on (i) the land to be cleared, (ii) the standing timber per hectare in the concession area and (iii) the expected processing recovery rate for sawn timber, which used unobservable inputs, to be completed in order to meet the master plan which was agreed by the relevant Cambodian government authority.

- verifies all major inputs to the independent valuation report
- assesses intangible assets movements when compared to the prior year valuation report; and
- holds discussions with the independent valuer.

19. GOODWILL

| | Group <i>HK\$'000</i> |
|--------------------------------------------------------|---------------------------------|
| Cost | |
| At 1 January 2011 | — |
| Arising from the acquisition of subsidiaries (note 30) | 18,579 |
| At 31 December 2011 | 18,579 |
| At 1 January 2012 and 31 December 2012 | 18,579 |
| Accumulated impairment losses | |
| At 1 January 2011 | — |
| Impairment | — |
| At 31 December 2011 and 1 January 2012 | — |
| Impairment (note 6) | 18,579 |
| At 31 December 2012 | 18,579 |
| Net carrying amount | |
| At 31 December 2012 | — |
| At 31 December 2011 | 18,579 |

Notes to Consolidated Financial Statements

31 December 2012

19. GOODWILL (Continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit (“CGU”) that are expected to benefit from that business combination.

| | 2012 HK\$'000 | 2011 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Resources and logistics business: | | |
| IM Mining | — | 18,579 |

On 31 December 2011, the recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2%, the growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 13.14%. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. No impairment loss recognised during the year ended 31 December 2011.

20. INTEREST IN ASSOCIATES

| | Group | | Company | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 |
| Unlisted shares, at cost | — | — | 120,968 | 120,968 |
| Share of net assets | 56,908 | 30,602 | — | — |
| Goodwill on acquisition (note 31) | 90,366 | 90,366 | — | — |
| | 147,274 | 120,968 | 120,968 | 120,968 |

Particulars of the associates of the Group as at 31 December 2012 was as follows:

As at 31 December 2012, the interests in the Associates of approximately HK\$147,274,000 represented the Group's 30% equity interest in which was incorporated in the British Virgin Islands with an issued capital of US\$100, and its subsidiaries (collectively referred to as the “Associates Group”).

The principle activities of the Associates Group are the provision of processing and distribution of basic goods in the People's Republic of China.

The following table illustrates the summarised financial information of the Associates Group as extracted from its unaudited management accounts:

| | Group | |
|----------------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Assets | 349,102 | 204,005 |
| Liabilities | (159,407) | (102,000) |
| Revenue for the year | 437,818 | — |
| Profit/(loss) for the year | 86,363 | (15) |

Notes to Consolidated Financial Statements

31 December 2012

20. INTEREST IN ASSOCIATES (Continued)

During the year ended 31 December 2012, the Associates Group has profitable from its operation, however, subsequent to the end of the reporting report in September 2013, due to the unfavourable operating environment and departure of key management and staff, the Associates Group had incurred a substantial loss and its operations have been closed down since then. Accordingly, the Group has disposed of the Associates Group for a cash consideration of HK\$2,500,000 in August 2015.

21. INVENTORIES

| | Group | |
|------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Raw materials | 712 | 146 |
| Work in progress | 1,936 | 2,269 |
| Finished goods | 3,088 | 2,318 |
| | 5,736 | 4,733 |

During the year ended 31 December 2012, depreciation of property, plant and equipment of approximately HK\$776,000 (2011: HK\$567,000), were included in the inventories in the consolidated statement of financial position.

At 31 December 2012, the Group's inventories with carrying amount of approximately HK\$2,411,000 (2011: HK\$991,000) were written-down to net realisable value of HK\$723,000. (2011: HK\$122,000)

22. TRADE RECEIVABLES

| | Group | |
|-------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Trade receivables | 2,001 | 2,001 |
| Less: Impairment | (2,001) | (2,001) |
| | — | — |

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

| | Group | |
|---------------------------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| At 1 January | 2,001 | 1,085 |
| Impairment losses recognised (note 6) | — | 916 |
| At 31 December | 2,001 | 2,001 |

Notes to Consolidated Financial Statements

31 December 2012

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|--------------------------------|------------------|------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 |
| Prepayments | 4,645 | 2,944 | — | — |
| Deposits and other receivables | 18,428 | 24,273 | 343 | 183 |
| Due from related companies* | — | 2,245 | — | — |
| | 23,073 | 29,462 | 343 | 183 |
| Less: Impairment | (8,122) | (6,084) | — | — |
| | 14,951 | 23,378 | 343 | 183 |

* The amounts due from related companies are unsecured, interest free and have no fixed terms of repayment. Further details on the related party transactions are disclosed in note 36 to the consolidated financial statements.

| | 31 December 2012 HK\$'000 | Maximum amount outstanding during the year HK\$'000 | 1 January 2012 HK\$'000 |
|-----------------------------------------------------------|---------------------------------|--------------------------------------------------------------------|-------------------------------|
| Group | | | |
| <i>Related companies</i> | | | |
| Agro Forestry Resources Co., Limited. | — | 1,598 | 1,598 |
| Seang Long Green Land Investment (Cambodia) Co., Limited. | — | 282 | 282 |
| Land and Developing (Cambodia) Co., Limited. | — | 365 | 365 |
| | — | 2,245 | 2,245 |

The directors of the Company are also the directors of these related companies.

24. CASH AND BANK BALANCES

| | Group | | Company | |
|------------------------|------------------|------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 |
| Cash and bank balances | 7,161 | 2,503 | 7 | 12 |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$4,575 (2011: HK\$28,258). 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.

Notes to Consolidated Financial Statements

31 December 2012

25. OTHER LOANS, OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|-----------------------------------------|------------------|------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 |
| Other payables and accruals liabilities | 34,463 | 20,626 | 6,664 | 4,176 |
| Related parties | | | | |
| Due to director* | 1,722 | — | 1,722 | — |
| Due to related parties [#] | 8,987 | 3,306 | — | — |
| Due to Mr. Zhang Zhenzhong (note 36) | 22,968 | 19,771 | — | — |
| | 33,677 | 23,077 | 1,722 | — |
| | 68,140 | 43,703 | 8,386 | 4,176 |

* The amount due to director is unsecured, interest-free, and has no fixed terms of repayment.

[#] The amounts due to related parties, of which are the key management and the directors of the Company, are unsecured, interest free and have no fixed terms of repayment.

26. CONVERTIBLE BONDS

On 26 November 2010, the Company issued zero coupon convertible bonds in the principal amount of approximately HK\$282,070,000 as part of the consideration for the acquisition of Richking Development Limited and its subsidiaries. The convertible bonds did not bear interest, had a maturity date of five years from the date of issuance and were repayable after five years from the date of issuance or convertible into shares of the Company at a conversion price of HK\$0.22 per share at any time after the issue date. All the outstanding convertible bonds were fully converted during the year ended 31 December 2011.

The movement of the liability and equity components of the convertible bonds for the year ended 31 December 2011 was set out below:

| | Group and Company | | |
|-----------------------------------------------------------|------------------------------------|---------------------------------|-------------------|
| | Liability component HK\$'000 | Equity component HK\$'000 | Total HK\$'000 |
| At 1 January 2011 | 174,808 | 104,407 | 279,215 |
| Imputed interest expense charged during the year (note 7) | 8,743 | — | 8,743 |
| Conversion into shares during the year (note 27) | (171,662) | (104,407) | (276,069) |
| Transfer to retained earnings | (11,889) | — | (11,889) |
| At 31 December 2011 | — | — | — |

Imputed interest expenses on the convertible bonds were calculated using the effective interest method by applying the interest rate of 9.97% per annum to the liability component.

Notes to Consolidated Financial Statements

31 December 2012

27. SHARE CAPITAL

| | Group and Company | |
|----------------------------------------------------------------------------------------------------------|-------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Authorised: | | |
| 4,000,000,000 ordinary shares of HK\$0.05 each (2011: 4,000,000,000 ordinary shares of HK\$0.05 each) | 200,000 | 200,000 |
| Issued and fully paid: | | |
| 2,623,951,000 ordinary shares of HK\$0.05 each (2011: 2,623,951,000 ordinary shares of HK\$0.05 each) | 131,198 | 131,198 |

Issued and fully paid

| | Number of shares '000 | HK\$'000 |
|------------------------------------------|-----------------------------|----------|
| At 1 January 2011 | 778,540 | 38,927 |
| Placing of share (note i) | 106,680 | 5,334 |
| Issue of shares (note ii) | 483,871 | 24,194 |
| Conversion of shares (note iii) | 1,254,860 | 62,743 |
| At 31 December 2011 and 31 December 2012 | 2,623,951 | 131,198 |

Notes:

- (i) On 29 December 2010, the Company entered into a placing agreement with Goldyard Securities Limited to place a total of 106,680,000 shares of the Company of HK\$0.05 each at the placing price of HK\$0.60 per share. The placing was completed in January 2011 with a net proceed of approximately HK\$64,008,000 received by the Company.
- (ii) In October 2011, the Company issued a total of 483,870,967 new shares as consideration for acquisition of Live Rise Technology Limited. At the completion date, the fair value of the consideration shares were approximately HK\$120,968,000.
- (iii) Please refer to note 26 to the consolidated financial statements, all the outstanding convertible bonds were converted into ordinary shares during the year ended 31 December 2011.

Notes to Consolidated Financial Statements

31 December 2012

28. SHARE OPTION SCHEME

In June 2011, pursuant to an ordinary resolution passed by the shareholders of the Company, the Company adopted a new share option scheme (the "Share Option Scheme") and terminated the prior share option scheme which was adopted on 14 December 2001. Under the Share Option Scheme, options may be granted to any employees and directors of the Company and its subsidiaries to subscribe for shares of the Company.

At 31 December 2012, the outstanding share options (the "Share Options") under the Share Option Scheme was 12,300,000 (2011: 18,087,000). The total number of shares in respect of which Share 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 number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Share Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

No consideration is payable on the grant date of the Share Options. Share Options may be exercised on the first or second anniversary of the respective date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

(a) Details of specific categories and the outstanding Share Options during the year ended 31 December 2012 are as follows:

| Date of grant | Exercise period | Outstanding as at 1 January 2012 | Lapsed during the year | Outstanding as at 31 December 2012 | Fair value at the grant date HK\$ | Adjusted fair value (note (i) & (ii)) HK\$ | Exercise price HK\$ | Adjusted exercise price after open offer (note (i)) HK\$ | Adjusted exercise price after open offer and share consolidation (note (ii)) HK\$ |
|-----------------------------|--------------------------------|----------------------------------|------------------------|------------------------------------|--------------------------------------|--------------------------------------------------|------------------------|----------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| Directors | | | | | | | | | |
| Leung Sze Yuan, Alan | | | | | | | | | |
| 31 March 2008 | 31 March 2010 to 30 March 2012 | 2,314,800 | (2,314,800) | — | 0.085 | 0.329 | 0.21 | 0.163 | 0.815 |
| 4 June 2010 | 4 June 2011 to 3 June 2014 | 5,000,000 | — | 5,000,000 | 0.025 | 0.124 | 0.073 | — | 0.365 |
| Employees | | | | | | | | | |
| 31 March 2008 | 31 March 2010 to 30 March 2012 | 3,472,200 | (3,472,200) | — | 0.085 | 0.329 | 0.21 | 0.163 | 0.815 |
| 4 June 2010 | 4 June 2011 to 3 June 2014 | 7,300,000 | — | 7,300,000 | 0.025 | 0.124 | 0.073 | — | 0.365 |
| | | <u>18,087,000</u> | <u>(5,787,000)</u> | <u>12,300,000</u> | | | | | |

All the outstanding Share Options were lapsed subsequent to the end of the reporting period in June 2014.

In accordance with the terms of the share-based arrangement, options issued during the financial year ended 31 December 2008 vested on the second anniversary of the date of grant, while options issued during the financial year ended 31 December 2010 vested on the first anniversary of the date of grant.

Notes:

- (i) As a result of the open offer of 762,000,000 shares by the Company on 20 April 2010, the numbers and the exercise prices of the Share Options outstanding were adjusted accordingly. The adjustments were made pursuant to the Scheme and in compliance with the GEM Listing Rules and supplementary guidance issued by the Stock Exchange on 5 September 2005.
- (ii) As a result of the share consolidation on the basis of every five shares consolidated into one share on 6 October 2010, the numbers and the exercise prices of the share options outstanding were adjusted accordingly.

Notes to Consolidated Financial Statements

31 December 2012

28. SHARE OPTION SCHEME (Continued)

(b) The weighted average exercise price of the Share Options during the year are as follows:

| | 2012 | | 2011 | |
|------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | Weighted average exercise price '000 | Number of options per share HK\$'000 | Weighted average exercise price '000 | Number of options per share HK\$'000 |
| At 1 January | 0.509 | 18,087 | 0.825 | 24,260 |
| Lapsed during the year | 0.815 | (5,787) | 1.750 | (6,173)* |
| At 31 December | 0.365 | 12,300 | 0.509 | 18,087 |

* On 13 October 2011, all the outstanding Share Options issued on 12 October 2007 aggregating 6,173,000 were expired and lapsed.

The weighted average share price at the date of exercise for shares options exercised during the year ended 31 December 2012 was HK\$0.365 (2011: HK\$0.509).

(c) Fair value of share options

No Share Options were further granted during the years ended 31 December 2012 and 2011. The share options were granted in Year 2008 and Year 2010, respectively. The fair value of the Share Options were calculated by using a binomial option pricing model ("Binomial model"). Where relevant, the expected life used in the model has been adjusted based on management's best estimates for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility was based on the historical share price volatility over past years. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after the vesting date when the share price was one and a half or two and a half times the respective exercise price.

Inputs in the model:

| | | |
|-----------------------------|-------------|---------------|
| Date of grant | 4 June 2010 | 31 March 2008 |
| Grant date share price | 0.365 | 0.206 |
| Exercise price | 0.073 | 0.210 |
| Expected volatility | 53.70% | 18.55% |
| Option life | 4 years | 4 years |
| Vesting period | 1 year | 2 years |
| Risk-free interest rate | 1.37% | 1.837% |
| Fair value per Share Option | HK\$0.025 | HK\$0.085 |

The Binomial model had been used to estimate the fair value of the Share Options. The variables and assumptions used in computing the fair value of the Share Options were based on director best estimates. The value of the Share Option varied with different variables in certain subjective assumptions.

Notes to Consolidated Financial Statements

31 December 2012

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 26 of the consolidated financial statements.

(i) *Share premium*

The application of the share premium account is governed by Bye-Law 140(A) of the Company's Bye-Laws and the Companies Act 1981 of Bermuda ("Companies Act").

(ii) *Contributed surplus*

Pursuant to a reorganisation in 2001, the Company became the holding company of the Group. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the reorganisation was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provisions of Section 54 of the Companies Act.

(iii) *Capital reserve*

Capital reserve comprised the amount allocated to the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in note 26 to the consolidated financial statements. The convertible bonds were converted into ordinary shares of the Company during the year ended 31 December 2011.

(iv) *Share options reserve*

Share options reserve comprises the portion of grant date fair value of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments.

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the consolidated financial statements.

(v) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2.4.

Notes to Consolidated Financial Statements

31 December 2012

29. RESERVES (Continued)

(b) Company

| | Share premium HK\$'000 | Contributed surplus HK\$'000 | Capital reserve HK\$'000 | Share options reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|------------------------------------------------------------------|------------------------------|------------------------------------|--------------------------------|-----------------------------------------|-----------------------------------|-------------------|
| At 1 January 2011 | 604,213 | 5,265 | 104,407 | 8,243 | (204,228) | 517,900 |
| Issue of shares | 96,774 | — | — | — | — | 96,774 |
| Equity-settled share based arrangements | — | — | — | 696 | — | 696 |
| Share options lapsed | — | — | — | (5,457) | 5,457 | — |
| Placing of share | 58,674 | — | — | — | — | 58,674 |
| Conversion of convertible bonds | 213,326 | — | (104,407) | — | 11,889 | 120,808 |
| Loss for the year and total comprehensive income for the year | — | — | — | — | (19,611) | (19,611) |
| At 31 December 2011 | 972,987 | 5,265 | — | 3,482 | (206,493) | 775,241 |
| At 1 January 2012 | 972,987 | 5,265 | — | 3,482 | (206,493) | 775,241 |
| Share options lapsed | — | — | — | (1,903) | 1,903 | — |
| Loss for the year and total comprehensive income for the year | — | — | — | — | (520,451) | (520,451) |
| At 31 December 2012 | 972,987 | 5,265 | — | 1,579 | (725,041) | 254,790 |

Notes to Consolidated Financial Statements

31 December 2012

30. ACQUISITION OF SUBSIDIARIES

Acquisition of IM Mining

On 15 June 2011, Linkbest obtained a control over (the "Acquisition") IM Mining through a contractual agreement, for a cash consideration at HK\$25,000,000 from the vendor, Mr. Gong. Mr. Gong was also a substantial shareholder and a director of the Company during the year ended 31 December 2012 and subsequently resigned as a director of the Company on 4 September 2014. At the date of previous auditors' report dated 27 March 2012, on the consolidated financial statements for the year ended 31 December 2011, the Group still had not obtained the approval from the relevant PRC authorities in respect of the transfer of ownership of the equity interest in IM Mining. IM Mining was engaged in resources and logistics business.

The fair value of the identifiable assets and liabilities of IM Mining as at the date of Acquisition were as follows:

| | <i>Notes</i> | Fair value recognised on acquisition <i>HK\$'000</i> | Previous carrying amount <i>HK\$'000</i> |
|-------------------------------------------------------------|--------------|------------------------------------------------------------------------|------------------------------------------------------------|
| Property, plant and equipment | 15 | 9,717 | 9,717 |
| Prepayments, deposits and other receivables | | 1,205 | 1,205 |
| Tax recoverable | | 77 | 77 |
| Cash and balances | | 20 | 20 |
| Other loans, other payables and accruals | | (615) | (615) |
| Due to related parties | | (3,983) | (3,983) |
| | | 6,421 | 6,421 |
| Goodwill arising from on the Acquisition (<i>note 19</i>) | | 18,579 | |
| Consideration | | 25,000 | |
| Satisfied by: | | | |
| Cash | | 25,000 | |

An analysis of the net outflow of cash and cash equivalents in respect of the Acquisition of IM Mining is as follows:

| | <i>HK\$'000</i> |
|-------------------------------------------------------------------------------------|-----------------|
| Cash consideration | (25,000) |
| Cash and bank balances acquired | 20 |
| Net outflow of cash and cash equivalents in respect of the Acquisition of IM Mining | (24,980) |

Notes to Consolidated Financial Statements

31 December 2012

30. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition of IM Mining (Continued)

During the year ended 31 December 2012 and as far as in the best knowledge and belief up to the date of the subsequent disposal of IM Mining in August 2015, the Group still had not obtained the approval from the relevant PRC authorities in respect of the transfer of ownership of the equity interest in IM Mining. The Group entered into a sale and purchase agreement (the "First Sale and Purchase Agreement") in September 2012 to dispose (the "First Linkbest Disposal") of its 100% equity interest in Linkbest and its subsidiaries (including IM Mining) (collectively, the "Linkbest Group") to the original vendor, Mr. Gong, a director of the Company during the year ended 31 December 2012 and subsequently resigned as a director on 4 September 2014, for a cash consideration of HK\$25,000,000 (the "Consideration").

However, the First Linkbest Disposal had not been completed on the long stop date in January 2014. The Directors considered that the Group did not commit itself to plan to sell and the First Linkbest Disposal was not completed within 12 months after the end of the reporting period and had been lapsed in January 2014. Therefore, all of the assets and liabilities of the Linkbest Group were not classified as a disposal group held for sale under HKFRS 5 as at 31 December 2012 and its financial results were fully consolidated into these consolidated financial statements for the year ended 31 December 2012.

Subsequent to the end of the reporting period on 19 August 2015, the Group further entered into a sale and purchase agreement (the "Second Sale and Purchase Agreement") with an independent third party, pursuant to which, the Group disposed (the "Second Linkbest Disposal") of the Linkbest Group to an independent third party at a cash consideration of HK\$100,000 and the Linkbest Group incurred losses during the subsequent years ended 31 December 2013 and 2014. Therefore, impairment losses of approximately HK\$26,521,000 were provided during the year ended 31 December 2012.

As (i) the management of the Company had been devoting its attention in preparing for the disposal of the Linkbest Group to Mr. Gong, who had been designated by the Board to manage the Linkbest Group since 2012; (ii) the departure of certain management and staff as a result of the non-performance of IM Mining and wage dispute; and (iii) the remaining books and records of the Linkbest Group were transferred to the buyer upon completion of the Second Linkbest Disposal in August 2015, the underlying books and records of the Linkbest Group were not accessible and only limited financial information of the Linkbest Group was retained by the Group for accounting and auditing purpose.

During the year ended 31 December 2012, the results of the Linkbest Group consolidated into these consolidated financial statements of the Group were based on the unaudited management financial statements of the Linkbest Group that were made available to the directors, as follows:

| | 2012 HK\$'000 | 2011 HK\$'000 |
|----------------------------------------------------------------|------------------|------------------|
| Revenue (note 5) | — | 145 |
| Cost of sales (note 6) | — | (122) |
| Gross profit | — | 23 |
| Other income and gains | 7 | 8,076 |
| Selling and distribution expenses | — | (96) |
| Impairment loss on property, plant and equipment | (5,904) | — |
| Impairment loss on prepayments, deposits and other receivables | (2,038) | — |
| Impairment loss on goodwill arising from a subsidiary | (18,579) | — |
| Administrative expenses | (2,876) | (2,244) |
| (Loss)/profit before tax | (29,390) | 5,759 |
| Income tax expenses | — | (1,540) |
| (Loss)/profit for the year | (29,390) | 4,219 |

Notes to Consolidated Financial Statements

31 December 2012

30. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition of IM Mining (Continued)

The major classes of assets and liabilities of the Linkbest Group as at 31 December 2012 are as follows:

| | Carrying amount <i>HK\$'000</i> | Impairment <i>HK\$'000</i> | 2012 Net amount <i>HK\$'000</i> |
|--------------------------------------------------------------------|---------------------------------------|-------------------------------|------------------------------------------|
| Assets | | | |
| Property, plant and equipment (<i>note 15</i>) | 5,904 | (5,904) | — |
| Goodwill (<i>note 19</i>) | 18,579 | (18,579) | — |
| Prepayments, deposits and other receivables | 7,794 | (2,038) | 5,756 |
| Due from a fellow subsidiary | 10 | — | 10 |
| Cash and bank balances | 4 | — | 4 |
| Total assets | 32,291 | (26,521) | 5,770 |
| Liabilities | | | |
| Other loans, other payables and accruals | (5,660) | — | (5,660) |
| Due to the immediate holding company | (25,004) | — | (25,004) |
| Due to the ultimate holding company | (11) | — | (11) |
| Total liabilities | (30,675) | — | (30,675) |
| Net assets/(liabilities) value | 1,616 | (26,521) | (24,905) |
| <i>Less:</i> Inter company balance with other members of the Group | | | |
| Due from a fellow subsidiary | 10 | — | 10 |
| Due to the immediate holding company | (25,004) | — | (25,004) |
| Due to the ultimate holding company | (11) | — | (11) |
| Net assets directly associated with the Linkbest Group | 26,621 | (26,521) | 100 |
| Consideration received | | | 100 |

The net cash flows incurred are as follows:

| | 2012 <i>HK\$'000</i> |
|-------------------------|-------------------------|
| Operating activities | (660) |
| Investing activities | (20) |
| Financing activities | 655 |
| Net cash outflow | (25) |

Notes to Consolidated Financial Statements

31 December 2012

31. ACQUISITION OF ASSOCIATES

Acquisition of the Associates Group

The interest in the Associates Group of approximately HK\$120,968,000 represented the Group's 30% equity interest in the Associates, which is principally engaged in the processing and distribution of basic goods in the People's Republic of China.

12 October
2011
HK\$'000

| | |
|------------------------------------------------------------------------------------------------------------------------------------|---------|
| The carrying values of the identifiable assets and liabilities of the Associates Group as at the date of Associates Acquisition | 102,005 |
| Portion attributable to the remaining 30% equity interests in the Associates Group | 30,602 |
| The fair value of the consideration shares | 120,968 |
| Goodwill (<i>note 20</i>) | 90,366 |

An analysis of the net inflow of cash and cash equivalents in respect of the Associates Acquisition were as follows:

HK\$'000

| | |
|----------------------------------------------------------------------------------|---|
| Cash consideration | — |
| Cash and bank balances acquired | — |
| Net inflow of cash and cash equivalents in respect of the Associates Acquisition | — |

Notes to Consolidated Financial Statements

31 December 2012

32. DISPOSAL OF A SUBSIDIARY

Guilin Simei and Biotechnology Limited

During the year ended 31 December 2011, the Group had decided to dispose (the "Guilin Disposal") of its 100% equity interest in Guilin Simei and Biotechnology Limited ("Guilin") at a consideration of HK\$220,000. As at 31 December 2011, the major classes of assets and liabilities of Guilin were re-classified as held for sales (note 12). The Guilin Disposal was subsequently completed on 31 January 2012.

The aggregated assets and liabilities in respect of Guilin and the gain on disposal of a subsidiary were as follows:

| | 2012 HK\$'000 |
|----------------------------------------------------------|--------------------------------|
| Property, plant and equipment (<i>notes 12 and 15</i>) | 37 |
| Cash and cash equivalents | 1 |
| Due to a fellow subsidiary | (538) |
| | (500) |
| Wavier of the amount due to a fellow subsidiary | 538 |
| Net assets value | 38 |
| Exchange fluctuation reserve realised | (147) |
| Gain on disposal of a subsidiary (<i>note 5</i>) | 329 |
| | 220 |
| Cash consideration | 220 |
| Less: Cash and cash equivalents in Guilin | (1) |
| Cash inflow in relation to the disposal of Guilin | 219 |

Notes to Consolidated Financial Statements

31 December 2012

33. DEREGISTRATION OF A SUBSIDIARY

In March 2012, the directors of the Company have applied for the deregistration of Tat Lung Medical Treatment (Shenzhen) Limited ("Tat Lung"), a subsidiary of the Company.

At the date of deregistration, the assets and liabilities of Tat Lung were as follows;

| | 2012 HK\$'000 |
|------------------------------------------------------|------------------|
| Property, plant and equipment (<i>note 15</i>) | 2 |
| Prepayments, deposits and other receivables | 4 |
| Inventories | 43 |
| Due from immediate holding company | 10,128 |
| Other loans, other payables and accruals | (3,253) |
| Tax payables | (327) |
| Due to a fellow subsidiary | (4,927) |
| | 1,670 |
| Wavier of amount due from immediate holding company | (10,128) |
| Wavier of amount due to a fellow subsidiary | 4,927 |
| | (3,531) |
| Net liabilities | (3,531) |
| Exchange fluctuation reserve realised | (3,740) |
| | 7,271 |
| Gain on deregistration of Tat Lung (<i>note 5</i>) | 7,271 |

34. OPERATING LEASE COMMITMENTS

As lessee

The Group leases certain of its office property under operating lease arrangements. Leases for property are negotiated for terms of one to two years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|-----------------------------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Within 1 year | — | 397 |
| In the second to fifth years, inclusive | — | — |
| After 5 years | — | — |
| | — | 397 |
| Continuing operations | — | 396 |
| Discontinued operation | — | 1 |
| | — | 397 |

Notes to Consolidated Financial Statements

31 December 2012

35. COMMITMENTS

Capital commitments

In addition to the operating lease commitments detailed in the note 34 above, the Group has the following capital commitments at the end of the reporting period:

| | Group | |
|------------------------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Plantation and clearing of forests | 16,123 | 13,969 |
| Property, plant and equipment | 2,090 | 311 |
| | — | 14,280 |
| Continuing operations | 18,213 | 14,280 |

36. RELATED PARTIES TRANSACTIONS

- (i) Save as those transactions and balances disclosed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the year:

| | Group | |
|----------------------------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| (Disposal)/acquisition of subsidiaries | — | 25,000 |

Please refer to note 30 to the consolidated financial statements for details of the disposal/acquisition of the subsidiaries. However, such disposal had been lapsed in January 2014.

The related party transactions were conducted on terms negotiated between the Group and the related parties.

- (ii) Outstanding balances with related parties:

As disclosed in the consolidated statement of financial position, the Group had an amount due to Mr. Zhang Zhengzhong ("Mr. Zhang"), a former chief executive officer, of HK\$22,968,000 (2011: HK\$19,771,000) (note 25) as at 31 December 2012, was unsecured, interest-free and no fixed term of repayment. Upon the signing of the loan agreement on 21 May 2013, the amount due to Mr. Zhang become interest bearing at 5% per annum, secured by 100% of the shares in Forest Glen Group Limited ("Forest Glen") and China Cambodia Resources Limited ("China Cambodia"). All rights of the said loan had been assigned to RC on 31 October 2014, details of which, are set out in note 38 to the consolidated financial statements.

Notes to Consolidated Financial Statements

31 December 2012

36. RELATED PARTIES TRANSACTIONS (Continued)

(iii) Compensation of key management personnel of the Group:

| | Group | |
|-----------------------------------------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Short term employee benefits | 1,421 | — |
| Post-employment benefits | — | 2,376 |
| Equity-settled share option expenses | — | 576 |
| Total compensation paid to key management personnel | 1,421 | 2,952 |

Further details of directors' emoluments are included in note 8 to the consolidated financial statements.

37. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group had the following material events:

- (i) As detailed in note 2.1(a) to the consolidated financial statements, the Company entered into (1) a loan facility of the RC Loan in November 2014; (2) the Subscription Agreements with the Subscribers in July and September 2015; and (3) the Plantation Cooperation Agreement with the Plantation Partner in November 2015, for the purpose of the attainment of profitable operations and improvement of operating cash flows of the Group;
- (ii) As detailed in note 30 to the consolidated financial statements, the Second Linkbest Disposal was completed in August 2015; and
- (iii) As detailed in note 2.1(c) to the consolidated financial statements, the Company entered into an underwriting agreement with an underwriter subsequent to the end of the reporting period on 24 February 2016 regarding the Rights Issue of approximately HK\$262 million (before expenses). At the date of the consolidated financial statements, the Right Issue has not been completed.

38. LITIGATIONS

(a) Litigation with Mr. Zhang

Subsequent to the end of the reporting period on 21 May 2013, Keen Wood Group Limited ("Keen Wood"), a wholly owned subsidiary of the Company, entered a loan agreement (the "Loan Agreement") with Mr. Zhang. Pursuant to which, Mr. Zhang provided 2 loans facilities (collectively, the "KW Loan") in the aggregate principal amount of up to HK\$76,300,000 to Keen Wood. The first loan (the "1st KW Loan"), being the outstanding indebtedness of approximately HK\$37,323,000 (the "2nd KW Loan") owed by the subsidiaries of Keen Wood to Mr. Zhang as at the date of the Loan Agreement, is deemed to have been drawn down by Keen Wood.

Pursuant to the Loan Agreement, Mr. Zhang provided the loans facilities in the aggregate principal amount of up to HK\$39,000,000 to be advanced to Keen Wood from time to time. As at 31 December 2012 none of such facility has been drawn down by Keen Wood.

The KW Loan bore an interest rate of 5% per annum, and was secured by 100% of the shares (the "Shares Charges") in Forest Glen and China Cambodia. The 1st KW Loan should be repaid on or before 20 May 2015 and the 2nd KW Loan should be repaid on or before 20 May 2016. If the Group defaults (the "Defaults") in the Loan Agreement is triggered (including but not limited to (1) default in repayment; and (2) the shares of the Company ceased to be listed on the GEM or trading in the shares of the Company has been suspended for a period of more 60 trading days after the date of the Loan Agreement), an additional interest of (i) 15% will be charged for the first 20 business days from said due date; (ii) 30% will be charged for the first 3 months immediately following the first 20 business days; and (iii) 50% will be charged thereafter.

Notes to Consolidated Financial Statements

31 December 2012

38. LITIGATIONS (Continued)

(a) Litigation with Mr. Zhang (Continued)

On 10 March 2014, 28 March 2014 and 21 August 2014, respectively, the Group received the letters issued by Mr. Zhang, he purported to declare that the Defaults had occurred and the KW Loan would immediately due and payable and the Shares Charges were enforceable. Mr. Zhang also commenced legal proceeds (the "Litigation") in the British Virgin Island Court against with Keen Wood, Forest Glen and China Cambodia.

On 31 October 2014, RC (a related party of the Company until 14 November 2014) acquired the KW Loan from Mr. Zhang. As such, Mr. Zhang is no longer a creditor of the Group in respect of the KW Loan and ceased to have any right to enforce the security under the Shares Charges. The Litigation was withdrawn by Mr. Zhang on 15 December 2014.

(b) Other litigations

Apart from the above, the Group has certain litigations arising from its former landlord and staff regarding the settlement of the accrued salaries, rental and other outstanding balances of approximately HK\$2,480,000. The litigations with the former landlord and the staff have been subsequently settled between the parties in March 2015 and January 2016, respectively. The Directors are of the opinion that such amounts have been fully provided in the consolidated financial statements of the Group and did not have further material financial impact of the Group.

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

| | The Group | | The Company | |
|--------------------------------|------------------|------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 |
| Loan and receivables: | | | | |
| Deposits and other receivables | 10,306 | 20,434 | 343 | 183 |
| Due from subsidiaries | — | — | 352,935 | 987,243 |
| Cash and bank balances | 7,161 | 2,503 | 7 | 12 |
| | 17,467 | 22,937 | 353,285 | 987,438 |

Financial liabilities

| | The Group | | The Company | |
|------------------------------------------|------------------|------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 |
| At amortised cost: | | | | |
| Other loans, other payables and accruals | 68,140 | 43,703 | 8,386 | 4,176 |
| Due to subsidiaries | — | — | 81,274 | 205,946 |
| | 68,140 | 43,703 | 89,660 | 210,122 |

Notes to Consolidated Financial Statements

31 December 2012

40. FAIR VALUE AND FAIR VALUE HIERARCHY

Management has assessed that the fair values of cash and bank balances, the current portion of trade receivables and financial assets included in deposits and other receivables, financial liabilities included in other loans, other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following tables illustrate the fair value measurement hierarchy of the Group:

Fair value hierarchy

The Group did not have any financial instrument which are measured in fair value as at the end of the reporting period.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments are other loans, other payables and accruals. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets such as other receivables which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group has no significant interest-bearing financial assets and liabilities with a floating interest rate as at 31 December 2011 and 2012. The Group's results and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency risk

The directors are of the opinion that almost all of the transactions of the Group and recognised financial assets and liabilities are denominated either in HK\$, United States Dollar ("US\$") or Renminbi ("RMB") and accordingly the Group's foreign currency risk is not material as the exchange rate of HK\$ against US\$ and RMB is quite stable. The Group currently does not have a foreign currency hedging policy. However, the management will monitor the foreign exchange exposure should the need arises.

Credit risk

The Group's credit risk is primarily attributable to prepayments, deposits and other receivables and cash and bank balance. These credit risks are monitored by the management of the Group on an ongoing basis. The allowance for impairment has been made to reduce the exposure to the credit risk in relation to the receivables. Other than this there are no significant concentrations of credit risk within the Group in relation to other financial assets.

Notes to Consolidated Financial Statements

31 December 2012

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group monitors its risk to a shortage of funds and will arrange financing if necessary. As at 31 December 2012, the Group had cash and bank balances of approximately HK\$7,161,000 (2011: HK\$2,503,000) and recorded a consolidated net current liabilities of approximately HK\$40,292,000 (HK\$15,488,000). Subsequent to the end of the reporting period in year 2014, the Company had entered into a loan facility agreement with RC for the loan amount of up to HK\$25,000,000. As at the date of this report, the Company had withdrawn approximately HK\$18,000,000. The lender has agreed not to demand for repayment until the completion of the fund raising exercise after the shares of the Company have been resumed for trading and the Company is in a position to do so.

The maturity of the financial liabilities of the Group at the end of each of the reporting period is as follows:

31 December 2012

| | Group | |
|----------------------------------------------------------------------------|--------------------------------------------------------------------------|---------------------------|
| | On demand or no fixed terms of repayment HK\$'000 | Total HK\$'000 |
| Financial liabilities included in other loans, other payables and accruals | 68,140 | 68,140 |

31 December 2011

| | On demand or no fixed terms of repayment HK\$'000 | Total HK\$'000 |
|----------------------------------------------------------------------------|---------------------------------------------------------------|-------------------|
| Financial liabilities included in other loans, other payables and accruals | 43,703 | 43,703 |

31 December 2012

| | Company | |
|----------------------------------------------------------------------------|--------------------------------------------------------------------------|---------------------------|
| | On demand or no fixed terms of repayment HK\$'000 | Total HK\$'000 |
| Financial liabilities included in other loans, other payables and accruals | 8,386 | 8,386 |
| Due to subsidiaries | 81,274 | 81,274 |
| | 89,660 | 89,660 |

Notes to Consolidated Financial Statements

31 December 2012

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

31 December 2011

| | On demand or no fixed terms of repayment HK\$'000 | Total HK\$'000 |
|----------------------------------------------------------------------------|---------------------------------------------------------------|-------------------|
| Financial liabilities included in other loans, other payables and accruals | 4,176 | 4,176 |
| Due to subsidiaries | 205,946 | 205,946 |
| | 210,122 | 210,122 |

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes other loans, other payables and accruals and tax payable, less cash and bank balances. Capital includes equity attributable to equity holders of the Company. The gearing ratios as at the end of reporting periods were as follows:

| | Group | |
|---------------------------------------------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Other loans, other payables and accruals | 68,140 | 43,703 |
| Tax payables | — | 1,899 |
| Less: Cash and bank balances | (7,161) | (2,503) |
| Net debt | 60,979 | 43,099 |
| Total capital: Equity attributable to equity holders | 437,780 | 1,041,238 |
| Capital and net debt | 498,759 | 1,084,337 |
| Gearing ratio | 14% | 4% |



Notes to Consolidated Financial Statements

31 December 2012

42. COMPARATIVE AMOUNTS

Certain comparative figures and items and balances have been adjusted and reclassified to conform with the current year's presentation.

43. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 24 February 2016.

Five Years Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and reclassified as appropriate, is set out below. The consolidated financial statements for the years ended 31 December 2008, 2009 and 2011 had been disclaimed by the auditors of the Company. Details of the disclaimer opinions of the auditors were set out in the annual reports for the years ended 31 December 2008, 2009 and 2011 of the Company, respectively.

| | Year ended 31 December | | | | |
|----------------------------------------------------------------|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2012 <i>HK\$'000</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> | 2009 <i>HK\$'000</i> | 2008 <i>HK\$'000</i> |
| RESULTS | | | | | |
| CONTINUING OPERATIONS | | | | | |
| REVENUE | 6,313 | 204 | 2,960 | 343 | 47,895 |
| Cost of sales | (5,062) | (122) | (2,811) | (878) | (21,781) |
| Gross profit | 1,251 | 82 | 149 | (535) | 26,114 |
| Other income and gains | 20,288 | 8,204 | 4,635 | 1,061 | 5,763 |
| Income from forestry exploitation business | — | — | — | — | 129,985 |
| Selling and distribution costs | (2,078) | (551) | (115) | (104) | (13,421) |
| Administrative expenses | (116,589) | (50,747) | (44,663) | (26,308) | (38,212) |
| Other operation expenses | — | — | — | — | (3,558) |
| Finance costs | — | (8,743) | (1,457) | (1,381) | (972) |
| Impairment loss on property, plant and equipment | (15,512) | — | — | — | — |
| Impairment loss on trade receivables | — | (916) | (916) | — | — |
| Impairment loss on prepayments, deposits and other receivables | (2,038) | (6,084) | — | — | — |
| Impairment loss on construction in progress | — | — | — | (2,600) | — |
| Write-down of inventories to net realisable value | (819) | (869) | — | — | — |
| Change in the fair value of biological assets | (31,766) | — | — | — | (93) |
| Impairment loss on intangible assets | (460,186) | — | — | — | — |
| Impairment loss on goodwill arising from a subsidiary | (18,579) | — | — | — | — |
| Provision for a potential loss of control of a subsidiary | — | — | — | — | (15,655) |
| Share of profit of associates | 25,909 | — | — | — | — |
| LOSS BEFORE TAX | (600,119) | (59,624) | (42,367) | (29,867) | 89,951 |
| Income tax expenses | — | (1,540) | — | — | (1,500) |
| PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS | (600,119) | (61,164) | (42,367) | (29,867) | 88,451 |
| DISCONTINUED OPERATION | | | | | |
| Profit/(loss) for the year from discontinued operation | — | (151) | 8,460 | (19,896) | (17,456) |
| PROFIT/(LOSS) FOR THE YEAR | (600,119) | (61,315) | (33,907) | (49,763) | 70,995 |
| Attributable to: | | | | | |
| Equity holders of the Company | (600,119) | (61,312) | (33,907) | (49,763) | 68,665 |
| Non-controlling interests | — | (3) | — | — | 2,330 |
| | (600,119) | (61,315) | (33,907) | (49,763) | 70,995 |
| ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS | | | | | |
| TOTAL ASSETS | 505,920 | 1,087,378 | 929,622 | 589,245 | 755,645 |
| TOTAL LIABILITIES | (68,140) | (46,140) | (196,367) | (43,887) | (151,088) |
| NON-CONTROLLING INTERESTS | 3 | 3 | — | — | (9,651) |
| | 437,783 | 1,041,241 | 733,255 | 545,358 | 594,906 |