Wai Chun Mining Industry Group Co. Ltd.

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 0660)

2012
Annual Report

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CORPORATE INFORMATION

EXECUTIVE DIRECTOR

Lam Ching Kui *(Chairman and Chief Executive Officer)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Chun Wai, Tony
Hau Pak Man
Lam Lee G.

AUTHORISED REPRESENTATIVES

Lam Ching Kui
Eric Chan

COMPANY SECRETARY

Eric Chan

AUDIT COMMITTEE

Chan Chun Wai, Tony *(Chairman)*
Hau Pak Man
Lam Lee G.

REMUNERATION COMMITTEE

Hau Pak Man *(Chairman)*
Lam Ching Kui
Chan Chun Wai, Tony
Lam Lee G.

NOMINATION COMMITTEE

Lam Lee G. *(Chairman)*
Lam Ching Kui
Chan Chun Wai, Tony
Hau Pak Man

REGISTERED OFFICE

Scotia Centre
4th Floor
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

13/F, Admiralty Centre 2,
18 Harcourt Road,
Admiralty,
Hong Kong

AUDITOR

HLM CPA Limited
Certified Public Accountants
Room 305
Arion Commercial Centre
2-12 Queen's Road West
Hong Kong

REGISTRAR IN HONG KONG

Union Registrars Limited
18th Floor
Fook Lee Commercial Centre
Town Place
33 Lockhart Road
Wanchai
Hong Kong

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited
Hang Seng Bank Limited

STOCK CODE

0660

COMPANY WEBSITE

www.0660.hk

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Wai Chun Mining Industry Group Company Limited (the "Company"). I would like to present the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

FINANCIAL REVIEW

Financial Performance

For the year ended 31 December 2012, the Group recorded a turnover of approximately HK$386,678,000 (2011: approximately HK$362,310,000), representing an increase of approximately 6.7% as compared to 2011. The Group recorded a gross profit and gross profit margin of approximately HK$22,699,000 (2011: approximately HK$51,487,000) and 5.9% (2011: 14.2%) respectively, representing a decrease of approximately 55.9% and 58.5% respectively as compared to 2011. Administrative expenses increased by 32.9% from approximately HK$23,322,000 that recorded in 2011 to approximately HK$30,999,000 in 2012.

Loss attributable to shareholders of the Company amounted to approximately HK$34,135,000 as compared to the loss attributable to shareholders of approximately HK$3,729,000 in 2011. The reason for loss was mainly due to impairment loss on prepayments and other receivables of approximately HK$23,848,000 incurred for the year.

Footwear Business

The footwear business recorded a turnover of approximately HK$10,940,000 (2011: approximately HK$36,602,000) and a segmental loss of approximately HK$7,059,000 (2011: loss of approximately HK$2,074,000) in 2012 respectively, representing a decrease of the turnover of approximately HK$25,662,000 and an increase in segmental loss of approximately HK$4,985,000 respectively when compared to 2011.

Modified Starch and Other Biochemical Business

The modified starch business and other biochemical business have improved when compared to that of 2011, which contributed approximately HK$369,740,000 (2011: approximately HK$325,708,000) and approximately HK$6,890,000 (2011: approximately HK$30,846,000) to the Group's turnover and segmental loss respectively, representing an increase of approximately 13.5% and turns to segmental loss respectively when compared to that of 2011.

Agency trade business

The Company commenced provision of agency services in handling trade of biochemical products and recorded a revenue of approximately HK$5,998,000 (2011: HK$Nil) during the year.

Financial Resources and Position

As at 31 December 2012, the Group financed its operations mainly by internally generated resources and borrowings. The Group had net current assets of approximately HK$11,231,000 (2011: approximately HK$20,270,000) and cash and cash equivalents of approximately HK$59,644,000 (2011: approximately HK$45,151,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong Dollars, Renminbi and United States Dollars. As the group's businesses are conducted in Hong Kong and the PRC, therefore the Group is not exposed to any material foreign exchange risk. As at 31 December 2012, the current ratio of the Group was approximately 1.0 times (2011: approximately 1.1 times).

As at 31 December 2012, total borrowings of the Group amounted to approximately HK$258,591,000, representing an increase of approximately 94.8% as compared to approximately HK$132,752,000 on 31 December 2011. Most of the borrowings of the Group are short term in nature and are denominated in Hong Kong Dollars and Renminbi. Most of these borrowings are secured and interest bearing with prevailing market interest rates. The gearing ratio of the Group, which was calculated on the basis of net debt to total assets, increased from 34.7% in 2011 to 52.2% as at 31 December 2012.

Bank deposits of approximately HK$45,402,000 (2011: approximately HK$34,762,000) have been pledged to secure banking facilities granted to the Group. The Group did not have any material contingent liabilities as at 31 December 2012.

The directors believe that the Group has sufficient financial resources for its operations. The directors will remain cautious in the Group's liquidity management. The directors will closely monitor the cash flow generated from operations and the Group's need for different types of external financing and will negotiate for proper facilities and consider proper means of equity financing as appropriate.

The Board has resolved not to recommend the payment of final dividend for the year ended 31 December 2012.

Impairment loss on prepayments and other receivables

The Company has made impairment loss on prepayments and other receivables during the year in the amount of approximately HK$23,848,000 detailed as follows:

(i) a refundable deposit paid to an independent third party for a proposed acquisition of Minera Chile Explotacion Limitada project in 2007 of approximately HK$10,452,000. The Group has been in negotiation with such independent third party for the repayment of the deposit in the last few years and the directors at that time consider such deposit would be repaid. However, during the year 2012, such independent third party confirmed that they will not repay such deposit to the Company and the Company has issued demand letter in Beijing to such independent third party; and

(ii) long aging balances of approximately HK$13,396,000, the recoverability of which was in doubt and expected to be unrecoverable. These individually impaired receivables include (a) counterparties that were in financial difficulties and only a small portion of these receivables is expected to be recovered and (b) certain amount of receivables that were in dispute. During the year, some other receivables were classified from prepayments for inventories due to the dispute with suppliers. Based on the above, the directors consider an impairment on these items would be required and appropriate.

BUSINESS REVIEW

The Group has confident that the performance of the operation of the modified starch and other biochemical products business would maintain the growth in the years to come. When the Group acquired 51% equity interest of Weifang Century-Light Biology Science Company Limited and its subsidiaries ("Weifang Century-Light") from Mr. Gong Weifeng (the "Vendor") in January 2010, there was a condition in the acquisition agreement that in the event the aggregate net profit after tax of Weifang Century-Light for the year ended 31 December 2010 was less than RMB8,000,000, the Vendor was obliged to buy back the 51% equity interests in Weifang Century-Light from the Group for a consideration of RMB10,300,000. Pursuant to a supplemental agreement dated 4 August 2011, the Group and the Vendor had further agreed that if the aggregate audited net profit after tax of Weifang Century-Light for the two years ended 31 December 2010 and 2011 was less than RMB20,000,000, the Vendor was obliged to buy back the 51% equity interests in Weifang Century-Light for a consideration of RMB10,300,000. The exercise period of this option was proposed to be 90 days after the aggregate audited net profit after tax of Weifeng Century-Light for the year ended 31 December 2011 is produced. For further details please refer to the circulars dated 31 December 2009 and 6 October 2011.

The management has assessed the aforesaid option at the acquisition date of Weifang Century-Light is a commercial term rather than financial derivative and determined that the fair value of such option is not significant. As a result of the changes in the condition of the option pursuant to the supplemental agreement dated 4 August 2011, an independent professional valuer, Greater China Appraisal Limited, was engaged and has assessed the value of the option as HK$Nil.

In addition, the aggregated audited net profit after tax of Weifang Century-Light for the two years ended 31 December 2010 and 2011 had exceeded RMB20,000,000, therefore, the option would be forfeited automatically.

During the year under review, the Group continued to engage in the trading of athletic and athlete-style footwear, working shoes, safety shoes, golf shoes and other functional shoes, the manufacture and sale of modified starch and other biochemical products and provision of agency services in handling trade of biochemical products.

Although the global economy has fluctuated during the year, the Group recorded an increase in turnover mainly from the modified starch and other biochemical products business during the year.

Besides, the Group commenced provision of agency services in handling trade of biochemical products. The agency trade business has been carrying out by the Company's subsidiary, namely 青島世展科技有限公司 (or Century-light Industry Co. Ltd. for identification purposes, "Century-light"), and the traded goods are mainly corn-refined products and other biochemical products such as Palm Kernel Cake（棕櫚仁粕）, Distiller's Dried Grain with Soluble ("DDGS")（玉米酒精糟）. Century-light acts as an agent for its customers to source the aforesaid goods from overseas suppliers and Century-light purchases such goods with full payment first, before indenting and on-selling the same to its customers. In view of the aforesaid mode of operation, Century-light obtains short-term bank borrowings to finance its agency trade business. Given that the goods purchased or sold were not retained/used by the Group eventually and the commission fee represents a small portion of the values of the goods traded, the Group only recognised its commission income of approximately HK$6.0 million as revenue. The amounts of trade and bills receivables and bills payables represent the outstanding payments from its customers and the outstanding payments from Century-light to its suppliers as at 31 December 2012 respectively. The credit policy for the trade and bills receivables for such business is open credit and not secured and the management will closely monitor and report to the Board the inventory risk and credit risk. It is the Group's policy that receivable balances should be monitored and managed by the management on an ongoing basis to ensure that the Group exposure to bad debt is minimised.

Future Prospect

The Group will continue to keep focus on its existing business by strengthening the business relationship with existing customers and look for opportunity to expand its customer base. The Group will also consider fund raising exercise to strengthen the financial position of the Group. With more financial resources, the Group could seek more new investment opportunities which will have attractive return to the Group's operating results in the years to come.

Foreign currency fluctuation

For the year ended 31 December 2012, the Group conducted its business transactions principally in Renminbi and US dollars. The Group has not experienced any material difficulties or negative impact on its operations as a result of fluctuations in currency exchange rates. Accordingly, the directors considered that the foreign exchange exposure is relatively limited and no hedging of exchange risk is required. As an internal policy, the Group continues to implement a prudent policy on financial management policy and does not participate in any high risk speculative activities. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measures when needed.

Pledge of assets and contingent liabilities

The Group's prepaid leasehold payments with carrying value of approximately HK$9,944,000 (2011: HK$Nil) and bank deposits of approximately HK$45,402,000 (2011: approximately HK$34,762,000) were pledged to secure the bank borrowings and bills payables for the year. The Group did not have any material contingent liabilities as at 31 December 2012.

Lam Ching Kui
Chairman

Hong Kong, 28 March 2013

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTOR

Mr. Lam Ching Kui ("Mr. Lam"), aged 54, has over 20 years of experience in project investments and securities investments. Mr. Lam has been engaged in industrial and residential property development in the PRC and commercial property investment in Hong Kong. He has made investments in listed securities and renewable energy. Mr. Lam is an indirect substantial shareholder of the Company and has been the Chairman and an Executive Director of the Company since December 2007. Mr. Lam is responsible for the overall strategic planning of the Group. Mr. Lam is also the chairman and an executive director of Wai Chun Group Holdings Limited ("Wai Chun Group"), a public listed company in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tony Chan Chun Wai ("Mr. Chan"), aged 41, is a Certified Public Accountant (Practicing) of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He is a director in a CPA practice. He has extensive experience in audit assurance and business advisory services with clients operating in a variety of industries in both Hong Kong and the PRC. Moreover, Mr. Chan also has extensive experience in public listings in Hong Kong and Singapore, mergers and acquisition as well as corporate finance. Before commencing his own practice, Mr. Chan has worked in major international accounting firms and a listed company. Mr. Chan is an independent non-executive director of Hans Energy Company Limited, Oriental City Group Holdings Limited and Honbridge Holdings Limited, whose shares are listed on the Stock Exchange. He is also an independent non-executive director of China Nutrifruit Group Limited, a company listed in NYSE AMEX. Mr. Chan has been an Independent Non-executive Director of the Company since May 2007.

Mr. Hau Pak Man ("Mr. Hau"), aged 69, graduated from Beijing University of Technology in 1966 and obtained a Bachelor degree in Electrical Engineering. He has extensive working experiences in electrical engineering and information technology. Mr. Hau has been working as the director of an energy material company in the PRC which produces advanced fine chemical products since 2008. Mr. Hau is currently a member of the National Committee of the Chinese Peoples Political Consultative Conference, a member of the Committee for Liaise with Hong Kong, Macao, Taiwan and Overseas Chinese and a member of Selection Meeting for Representatives of the Hong Kong Special Administrative Region of The Twelve National People's Congress of the People's Republic of China* (中華人民共和國香港特別行政區第十二屆全國人民代表大會代表選舉會議成員). Mr. Hau has been an Independent Non-executive Director of the Company since November 2012.

BIOGRAPHICAL DETAILS OF DIRECTORS

Dr. Lam Lee G. ("Dr. Lam"), aged 53, has over 30 years of international experience in general management, strategy consulting, corporate governance, investment banking, direct investment and fund management across the telecommunications, media and technology (TMT), retail/consumer, infrastructure/real estates and financial services sectors. He is currently a Chairman - Indochina, Myanmar and Thailand (and formerly Chairman - Hong Kong), and a Senior Adviser - Asia of Macquarie Capital (Hong Kong) Limited.

Dr. Lam holds a Bachelor of Science in Sciences and Mathematics, a Master of Science in Systems Science and a Master of Business Administration, all from the University of Ottawa in Canada, a Post-graduate Diploma in Public Administration from Carleton University in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Law (Hons) from Manchester Metropolitan University in the United Kingdom ("U.K."), a Master of Laws from the University of Wolverhampton in the U.K., a Postgraduate Certificate in Laws from the City University of Hong Kong, a Certificate in Professional Accountancy from the School of Continuing and Professional Studies of the Chinese University of Hong Kong and a Doctor of Philosophy from The University of Hong Kong.

Dr. Lam is Chairman of Monte Jade Science and Technology Association of Hong Kong, and serves on the board of several publicly-listed companies as an independent or non-executive director. He is an independent non-executive director of CSI Properties Limited, Far East Holdings International Limited, Glorious Sun Enterprises Limited, Hutchison Harbour Ring Limited, Imagi International Holdings Limited, Mei Ah Entertainment Group Limited and Vongroup Limited (all of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) and a non-executive director of Sunwah Kingsway Capital Holdings Limited (whose shares are listed on the Stock Exchange). He is also an independent director of Asia-Pacific Strategic Investments Limited, Next-Generation Satellite Communications Limited, Rowsley Limited and Top Global Limited (all of which are listed on the Main Board of the Singapore Stock Exchange). He is an independent director of Sunwah International Limited (whose shares are listed on the Toronto Stock Exchange).

Having served as a part-time member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region for two terms and as a member of the Legal Aid Services Council of Hong Kong, Dr. Lam is a member of the Jilin Province Committee (and formerly a Specially-invited Member of the Zhejiang Province Committee) of the Chinese People's Political Consultative Conference, a member of the Hong Kong Institute of Bankers, a board member of the East-West Center Foundation, a member of the Young Presidents' Organization (YPO), a member of the Chief Executives Organization (CEO), a fellow of the Hong Kong Institute of Directors, a fellow of the Hong Kong Institute of Arbitrators, an accredited mediator of the Centre for Effective Dispute Resolution (CEDR), a member of the General Committee and the Corporate Governance Committee of the Chamber of Hong Kong Listed Companies, a vice president of the Hong Kong Real Estate Association, a founding board member and the Honorary Treasurer of the Hong Kong–Vietnam Chamber of Commerce, a board member of the Australian Chamber of Commerce in Hong Kong, and a visiting professor (in the fields of corporate governance and investment banking) at the School of Economics and Management of Tsinghua University in Beijing.

Dr. Lam was an independent non-executive director of TMC Life Sciences Berhad (whose shares are listed on the Main Market of Bursa Malaysia Securities Berhad), CDC Software Corporation (whose shares are listed on NASDAQ Global Market), Mingyuan Medicare Development Company Limited and Sino Resources Group Limited (both shares are listed on the Stock Exchange) and China.com Inc. and Finet Group Limited (both shares are listed on the Growth Enterprises Market of the Stock Exchange). Dr. Lam is an independent director of Thomson Medical Centre Limited (whose shares were listed on the Main Board of the Singapore Stock Exchange and were delisted on 24 January 2011) and is an independent non-executive director of Vietnam Equity Holding and Vietnam Property Holding (both of whose shares were listed on the Frankfurt Stock Exchange but were delisted on 15 December 2012). Dr. Lam was a director of a private company incorporated in Hong Kong with limited liability between 15 December 1999 and 27 October 2004 in which the company was voluntarily wound up by its creditors on 12 September 2001.

Dr. Lam has been an Independent Non-executive Director of the Company since January 2013.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and the audited consolidated financial statements of the Company and of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding and the principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements. There was no significant change in the nature of the Company's principal activities during the year.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 27 to 95.

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

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity set out on page 30.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the five financial years ended 31 December 2012 is set out on page 96.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant, and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

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

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Lam Ching Kui *(Chairman and Chief Executive Officer)*
Mr. Lu Jun Wu *(Resigned on 2 January 2013)*

Independent Non-executive Directors

Mr. Chan Chun Wai, Tony
Mr. Hau Pak Man *(Appointed on 21 November 2012)*
Dr. Lam Lee G. *(Appointed on 1 January 2013)*
Mr. Shaw Lut, Leonardo *(Resigned on 3 January 2013)*
Mr. Wong Wai Man, Raymond *(Resigned on 21 November 2012)*

The biographical details of the Directors of the Company are set out on pages 6 to 8 of this Annual Report.

In accordance with Article 99 of the Articles of Association of the Company, Mr. Hau Pak Man and Dr. Lam Lee G. shall retire from office by rotation at the forthcoming Annual General Meeting of the Company ("AGM") and, being eligible, will offer themselves for re-election.

The term of office of each of the other independent non-executive director is the period up to his retirement as required by the Company's Articles of Association.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service agreement with the Company for a term of not more than three years commencing from their date of appointment, which continues thereafter until terminated by either party giving not less than one months' notice in writing to the other party.

Each of the Independent Non-executive Directors has entered into a service agreement with the Company for a term of two years from their date of appointment, which can be terminated by either party giving not less than one month notice in writing to the other party. Each of the Independent Non-executive Directors is subject to the provisions for retirement by rotation and re-election at the AGM in accordance with the Company's Articles of Association.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has service agreement with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of emoluments of the Directors are set out in note 14 to the consolidated financial statements.

The Directors' fees are subject to shareholders' approval at the AGM. Other emoluments are determined by the Company's Board of Directors with reference to the recommendations from the Remuneration Committee taking into account the directors' duties, responsibilities and performance and the results of the Group.

INTERESTS IN CONTRACTS

Other than as disclosed in note 34 to the consolidated financial statements, there are no contract of significance to which the Company, its holding company, fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING BUSINESS

None of the Directors had any interests in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, during the year and up to the date of this report.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2012, the interests and short positions of the Directors and chief executive in the shares of the Company (the "Shares") and underlying shares of the Company or any of, its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required pursuant to: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

LONG POSITIONS

Name of Director	Capacity	Number of Shares Held	Approximate percentage of shareholding
Mr. Lam Ching Kui	Interests of controlled corporations	9,660,064,320	62.51%

Mr. Lam Ching Kui is the beneficial owner of Chinese Success Limited, the major shareholder holding 62.51% of the issued share capital of the Company.

Save as disclosed above, as at 31 December 2012, none of the Directors of the Company had any interests or short positions in the Shares or underlying shares of the Company or any of its associated corporations (within the meaning of part XV of the 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 Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or any of their spouses or children under the age of 18, was granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors, the following shareholders (other than the Directors or chief executives of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in Shares and underlying Shares in the Company

Name of Shareholder	Capacity	Number of Shares Held	Approximate percentage of shareholding
Wai Chun Investment Fund *(Note 1)*	Interests of controlled corporations	9,660,064,320	62.51%
Chinese Success Limited *(Note 1)*	Beneficial owner	9,660,064,320	62.51%
Onward Global Investments Limited *(Note 2)*	Beneficial owner	1,286,350,000	8.32%
Spring Garden Investments Limited *(Note 3)*	Beneficial owner	1,286,400,000	8.32%

Notes:

(1) These shares are beneficial owned by Chinese Success Limited, which in turn is wholly owned by Wai Chun Investment Fund. Mr. Lam Ching Kui, the Chairman and Executive Director of the Company, is the beneficial owner of the entire issued share capital of Wai Chun Investment Fund. Mr. Lam Ching Kui is the Director of Chinese Success Limited and Wai Chun Investment Fund.

(2) Mr. Liu Wei is the beneficial owner of Onward Global Investments Limited, the substantial shareholder holding 8.32% of the issued share capital of the Company.

(3) Mr. Pan Guoxin is the beneficial owner of Spring Garden Investments Limited, the substantial shareholder holding 8.32% of the issued share capital of the Company.

Save for the shareholders as disclosed herein, the Directors and the chief executive of the Company are not aware of any persons who, as at 31 December 2012, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

SHORT POSITIONS IN SHARES AND UNDERLYING SHARES IN THE COMPANY

As at 31 December 2012, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

OTHER PERSONS

As at 31 December 2012, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executives and the substantial shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

SHARE OPTION SCHEME

Pursuant to a share option scheme adopted by the shareholders of the Company on 10 June 2003 (the "SOS"), the Company may, at their discretion, invite full-time employees of the Group, including Directors of the Company and its subsidiaries, and any suppliers, consultants, agents and advisors, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for Shares. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The SOS will remain in force for a period of 10 years commencing on 10 June 2003.

The share options under the SOS are exercisable at any time for a period to be determined by the Directors, which shall not more than 10 years after the date of grant.

The total number of Shares in respect of which options may be granted under the SOS is not permitted to exceed 10% of the Shares in issue on the date of approval of the SOS without prior approval from the Company's shareholders. No option may be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which may be granted under the SOS or any other share option schemes at the time it is proposed to grant the relevant options to that employee.

Options granted under the SOS must be taken up within 28 days of the date of grant, upon payment of HK$10.00 per grant.

As at 31 December 2012, no share option was granted under the SOS and no share option was lapsed or cancelled during the year.

CONNECTED TRANSACTION

A Tenancy Agreement was entered into between Wai Chun Holdings Group Limited as landlord and Wai Chun Incorporation Limited, a wholly owned subsidiary of the Company, as tenant on 31 October 2011 in relation to the left portion of 13/F, Admiralty Centre, Tower II, 18 Harcourt Road, Hong Kong, the principal place of business in Hong Kong. The term of the Tenancy Agreement commences from 1 November 2011 and expiring on 31 October 2013, both days inclusive, with a rental of HK$265,675 per calendar month (equivalent to HK$3,188,100 per annum), exclusive of management fee, rates and all other outgoing charges per calendar month.

Wai Chun Holdings Group Limited is owned as to 50% by Mr. Lam Ching Kui and as to the remaining 50% by Ms. Chan Oi Mo. Mr. Lam Ching Kui is a controlling shareholder of the Company and is interested in approximately 62.51% of the issued share capital of the Company and Ms. Chan Oi Mo is the spouse of Mr. Lam Ching Kui. Accordingly, Wai Chun Holdings Group Limited is regarded as a connected person of the Company under the Listing Rules. Therefore, the Tenancy Agreement constitutes a continuing connected transaction for the Company under Rule 14A.14 of the Listing Rules.

The aggregate rental payable under the Tenancy Agreement per annum, being HK$3,188,100, represents less than 5% of the applicable percentage ratios (as defined in the Listing Rules) for the Company on an annual basis. Accordingly, pursuant to Rule 14A.34 of the Listing Rules, the Tenancy Agreement is subject to reporting, announcement and annual review requirements but no approval of independent shareholders of the Company will be required.

Pursuant to Rule 14A.37 of the Listing Rules, the independent non-executive Directors of the Company have reviewed the above continuing connected transactions and in their opinion, the transactions are:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has also confirmed that a letter pursuant to Rule 14A.38 of the Listing Rules has been issued to the Board by the auditor of the Company.

Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for approximately 43.74% of total turnover and sales to the largest customer accounted for approximately 16.07%. The five largest suppliers of the Group in aggregate accounted for about 78.46% of its operating costs for the year. Purchases from the largest supplier accounted for about 53.76% of its operating costs. None of the Directors, their associates, or any shareholder (who to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the Group's five largest customers or suppliers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

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

EMOLUMENT POLICY

As at 31 December 2012, the Group had a total of 156 employees, the majority of whom are situated in the PRC. In addition to offering competitive remuneration packages to employee discretionary bonuses and share options may also be granted to eligible employees based on individual performance.

The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics, decides the emoluments of the Directors. No Director, or any of his associates, and executive, is involved in dealing his own remuneration.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 35 to the consolidated financial statements and under the heading "Share-based payment transactions" in this report.

CORPORATE GOVERNANCE

Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" in this annual report.

AUDITOR

The consolidated financial statements for the years ended 31 December 2010 and 31 December 2011 were audited by HLM & Co. On 16 January 2013, HLM & Co. resigned as the auditor due to change of entity status from partnership to limited company. HLM CPA Limited has been appointed as the auditor of the Company with effective from 30 January 2013.

The consolidated financial statements for the year ended 31 December 2012 were audited by HLM CPA Limited who will retire and seek for re-election at the forthcoming annual general meeting.

On behalf of the Board

Lam Ching Kui
Chairman

Hong Kong, 28 March 2013

CORPORATE GOVERNANCE REPORT

The Directors and other members of the management team of the Company are dedicated to maintain high standards of corporate governance. They will continue to exercise leadership, enterprise, integrity and judgement so as to achieve continuing prosperity and to act in the best interests of the Company and its shareholders in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the cores of the Company's corporate governance practices.

The Company continues to devote efforts on promoting good corporate governance so as to ensure its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules as its own code on corporate governance practices. The Company has taken various measures to cope with the latest development in the corporate governance regime.

The Company complied with all the code provisions and to certain extent of the recommended best practices set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 (the "CG Code") of the Listing Rules throughout the year ended 31 December 2012 except that under code provision A.2.1, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not at present separate the roles of the chairman and chief executive officer. Mr. Lam Ching Kui is the chairman and chief executive officer of the Company. He has extensive experience in project management and securities investments and is responsible for the overall corporate strategies, planning and business development of the Group. The balance of power and authorities is ensured by the operation of the Board which comprised of experienced and high caliber individuals with sufficient number thereof being independent non-executive directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. All directors have confirmed, following specific enquiries by the Company that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2012.

BOARD OF DIRECTORS

Composition of the Board

As at the date of this Annual Report, the Board comprises four members as follows:

Executive Directors

Mr. Lam Ching Kui *(Chairman and Chief Executive Officer)*
Mr. Lu Jun Wu *(Resigned on 2 January 2013)*

Independent Non-executive Directors

Mr. Chan Chun Wai, Tony
Mr. Hau Pak Man *(Appointed on 21 November 2012)*
Dr. Lam Lee G. *(Appointed on 1 January 2013)*
Mr. Shaw Lut, Leonardo *(Resigned on 3 January 2013)*
Mr. Wong Wai Man, Raymond *(Resigned on 21 November 2012)*

Responsibilities

The Board has a balance of skill and experience and a balanced composition of Executives and Non-executive Directors and is responsible for oversight of the management of the Company's business and affairs. The Board has delegated the day-to-day responsibility to the Executive Director and senior management of the Company.

The Board, headed by the Chairman, is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management.

The Company considers that internal control system and risk management function are essential, and the Board plays an important role in implementing and monitoring internal control system and risk management function.

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

Each Independent Non-executive Director has confirmed, in accordance with the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules that he is independent of the Company and the Company also considers that they are independent.

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;
- active participation on the boards of subsidiaries and associated companies;
- approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of the Board, senior management and shareholders;
- consideration of misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to meet their obligations, an appropriate organisational structure is in place with clearly defined responsibilities and limits of authority.

APPOINTMENT/RE-ELECTION OF REMOVAL OF DIRECTORS

The appointment of all the directors, including Independent Non-executive Directors, is for a specific term of not more than three years from date of appointment. The Articles of Association provide for the retirement of Directors by rotation and any new Director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting following the appointment.

The procedures and process of appointment, re-election and removal of Directors are set out in the Company's Articles of Association. The Nomination Committee is responsible for the reviewing the Board composition, monitoring the appointment of Directors and assessing the independence of the Independent Non-executive Directors.

BOARD PROCESS

During the year ended 31 December 2012, the Board held 4 regular board meetings. In addition, board meetings are convened when necessary to deal with everyday matters that require the Board's prompt decision, and are usually attended by executive directors only. The Directors participated in person or through electronic means of communication. The attendance of each Director is set out as follows:

Name of Director	**Number of meetings attended/held**
Executive Directors	
Mr. Lam Ching Kui *(Chairman and Chief Executive Officer)*	4/4
Mr. Lu Jun Wu *(Resigned on 2 January 2013)*	3/4
Independent Non-executive Directors	
Mr. Chan Chun Wai, Tony	4/4
Mr. Hau Pak Man *(Appointed on 21 November 2012)*	1/4
Dr. Lam Lee G. *(Appointed on 1 January 2013)*	0/4
Mr. Shaw Lut, Leonardo *(Resigned on 3 January 2013)*	4/4
Mr. Wong Wai Man, Raymond *(Resigned on 21 November 2012)*	3/4

Directors are provided with relevant information to make informed decisions. The Board and each director have separate and independent access to the Company's senior management for information and making enquires if necessary. In addition, Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

Every Director is entitled to have access to the advice and services of the Company Secretary with a view to ensure that the Board procedures, and all applicable rules and regulations, are complied with. All minutes are kept by the Company Secretary and are opened for inspections by any Director during normal office hours by giving reasonable advance notice.

If a substantial shareholder or a Director has a conflict of interest in a matter before the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter.

BOARD COMMITTEES

The Company has set up a number of committees of the Board, including the Remuneration Committee, the Audit Committee and Nomination Committee, with specific terms of reference relating to their authority and duties, which strengthen the Board's functions and enhance its expertise.

REMUNERATION COMMITTEE

The Remuneration Committee comprises one Executive Director and three Independent Non-executive Directors.

The primary function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The Company's emolument policy is to ensure that the remuneration offered to employees including Executive Directors and senior management is based on the skills, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages are also determined by reference to the Company's performance and profitability, remuneration level in the industry and the prevailing market conditions. The emolument policy for Non-executive Directors, mainly comprising directors' fees, is subject to annual assessment with reference to the market standard. Individual Director and senior management would not be involved in deciding their own remuneration.

During the year ended 31 December 2012, the Remuneration Committee held 2 meetings, with attendance record as follows:

Name of Director	**Number of meetings attended/held**
Mr. Hau Pak Man *(Chairman) (Appointed on 21 November 2012)*	0/2
Mr. Lam Ching Kui *(Appointed on 2 January 2013)*	0/2
Mr. Chan Chun Wai, Tony	2/2
Dr. Lam Lee G. *(Appointed on 1 January 2013)*	0/2
Mr. Lu Jun Wu *(Resigned on 2 January 2013)*	2/2
Mr. Shaw Lut, Leonardo *(Resigned on 3 January 2013)*	2/2
Mr. Wong Wai Man, Raymond *(Resigned on 21 November 2012)*	2/2

During the year under review, the Remuneration Committee reviewed matters relating to remuneration packages of Directors and senior management.

AUDIT COMMITTEE

The Audit Committee comprises Mr. Chan Chun Wai, Tony, Mr. Hau Pak Man and Dr. Lam Lee G., all of whom are Independent Non-executive Directors.

The Audit Committee reports directly to the Board and reviews financial statements and internal control, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditor to discuss various accounting issues, and reviews the effectiveness of internal controls. Written terms of reference, which describe the authority and duties of the Audit Committee are regularly reviewed and updated by the Board.

During the year ended 31 December 2012, the Audit Committee held 2 meetings, with attendance record as follows:

Name of Director	**Number of meetings attended/held**
Mr. Chan Chun Wai, Tony	2/2
Mr. Hau Pak Man *(Appointed on 21 November 2012)*	0/2
Dr. Lam Lee G. *(Appointed on 1 January 2013)*	0/2
Mr. Shaw Lut, Leonardo *(Resigned on 3 January 2013)*	2/2
Mr. Wong Wai Man, Raymond *(Resigned on 21 November 2012)*	2/2

At the meetings, the Audit Committee reviewed the audited financial statements for the year ended 31 December 2011 and the interim report for the six months ended 30 June 2012 respectively. The Audit Committee has also reviewed the Group accounting principles and practices, Listing Rules and statutory compliance, internal controls and financial reporting matters. The Committee is satisfied with their review of the independence of the Auditors and their audit process for 2012 audit and recommended the Board their re-appointment in 2013 at the forthcoming Annual General Meeting.

The Group's results and financial statements for the year ended 31 December 2012 have been reviewed by the Audit Committee.

NOMINATION COMMITTEE

The Company has established a nomination committee ("Nomination Committee") in 2012 with written terms of reference. The Nomination Committee currently comprises one Executive Director and three Independent Non-executive Directors, namely Dr. Lam Lee G. (chairman of the Nomination Committee), Mr. Lam Ching Kui, Mr. Chan Chun Wai, Tony and Mr. Hau Pak Man. The primary duties of the Nomination Committee include reviewing the structure, size and composition of the Board annually, determining nomination policies and procedures and making recommendation on any proposed changes to the Board and the appointment or reappointment of directors having regard to the balance of skills and experience appropriate to the Group's business.

The duties of the Nomination Committee, as set out in its terms of reference, adhere to the relevant CG Code. The Committee usually meets once a year and at such other time as is necessary. Any Committee member may convene a meeting of the Nomination Committee.

No Nomination Committee meeting was held during the year ended 31 December 2012, as it was duly constituted in March 2012.

EXTERNAL AUDITORS AND THEIR REMUNERATION

HLM CPA Limited retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLM CPA Limited as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

The external auditors of the Company is HLM CPA Limited provided services in respect of the audit of Company's financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2012. HLM CPA Limited, formerly known as HLM & Co., also reviewed the 2012 unaudited interim financial information of the Company, which was prepared in accordance with HKFRSs.

The total fees charged by HLM CPA Limited in respect of audit services for the year ended 31 December 2012 amounted to HK$500,000.

Description of non-audit services performed by HLM & Co.	**Fee Paid** *HK$*
(1) Interim review of financial statements of the Company and its subsidiaries for the six months ended 30 June 2012	128,000

DIRECTORS' RESPONSIBILITY IN PREPARING FINANCIAL STATEMENTS

The Directors acknowledge that their responsibilities for preparing the consolidated financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditor of the Company regarding their reporting responsibilities for the consolidated financial statements is set out in the Independent Auditor's Report on pages 25 to 26 of this Annual Report.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

The Company is responsible for arranging and funding suitable training for the directors and individual directors also participated on courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or via online aids or reading relevant materials. The company secretary of the Company continuously updates all directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

COMPANY SECRETARY

Ms. Kam Man Yi, Margaret, the company secretary of the Company, had complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules during 2012. She resigned as the company secretary of the Company with effect from 4 December 2012. Mr. Eric Chan has been appointed as the company secretary with effect from 29 March 2013.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The system includes a defined management structure with limits of authority, safeguards its assets against unauthorised use of disposition, ensures the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensures compliances with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage the risks of failure in the Group's operational systems and in the achievement of the Group's objectives.

The Directors acknowledge their responsibilities to ensure a sound and effective internal control system designed to facilitate efficient operations and to provide reasonable assurance in the financial reporting and compliance with applicable laws and regulations.

During the internal control system review performed in 2012, the Board, through the Audit Committee, has reviewed the effectiveness of the Group's internal control system covering all material controls, including financial, operational and compliance controls and risk management function. There are no material internal controls deficiencies that may affect the shareholders of the Company have come to the attention of the Audit Committee or the Board. They considered that the system had effectively safeguarded the assets of the Group. The Group will continue to enhance the system to cope with the changes in the business environment.

SHAREHOLDERS COMMUNICATION

The Directors are aware of the importance of maintaining good relations and communications with shareholders. The Company uses a range of communication tools, such as the Annual General Meeting (the "AGM"), the annual report, the interim report, various notices and announcements and circulars to ensure its shareholders are kept well informed of key business imperatives. The AGM allows the Directors to meet and communicate with shareholders. The Company's financial statements and each of the required disclosure of information are dispatched within the prescribed period imposed by laws and regulations.

To further promote effective communication, the corporate website is maintained to disseminated Company's announcements and other relevant financial and non-financial information electronically on a timely basis through the website of the Company, www.0660.hk and the Stock Exchange, www.hkex.com.hk.

INVESTOR RELATIONS

A printed copy of the memorandum and articles of association of the Company has been published on the websites of the Company and the Stock Exchange. There has been no changes in the Company's constitutional documents during the year ended 31 December 2012.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

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TO THE SHAREHOLDERS OF WAI CHUN MINING INDUSTRY GROUP COMPANY LIMITED
偉俊礦業集團有限公司
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Wai Chun Mining Industry Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 95, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

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

EMPHASIS OF MATTER

The accompanying consolidated financial statements for the year ended 31 December 2012 have been prepared assuming that the Group will continue as a going concern. Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicate that the Group incurred a net loss of approximately HK$43,764,000 for the year ended 31 December 2012 and, as of that date, the Group's capital deficiency attributable to shareholders of the Company was approximately HK$9,629,000. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Management's arrangements to address the going concern issue are also described in note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

HLM CPA Limited
Certified Public Accountants
HO PAK TAT
Practising Certificate Number: P05215
Hong Kong
28 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	8	**386,678**	362,310
Cost of sales		**(363,979)**	(310,823)
Gross profit		**22,699**	51,487
Other revenue	9	**4,138**	9,673
Selling expenses		**(9,476)**	(12,170)
Administrative expenses		**(30,999)**	(23,322)
Impairment loss on prepayments and other receivables		**(23,848)**	—
Gain on disposal of subsidiaries		**—**	3,476
Finance costs	11	**(7,489)**	(5,299)
(Loss) profit before taxation		**(44,975)**	23,845
Taxation	12	**1,211**	(10,028)
(Loss) profit for the year	13	**(43,764)**	13,817
(Loss) profit attributable to:			
— Shareholders of the Company		**(34,135)**	(3,729)
— Non-controlling interests		**(9,629)**	17,546
		(43,764)	13,817
Loss per share	17		
— Basic *(HK cents)*		**(0.22)**	(0.02)
— Diluted *(HK cents)*		**(0.22)**	(0.02)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
(Loss) profit for the year	13	**(43,764)**	13,817
Other comprehensive (expense) income:			
Exchange differences arising on translating foreign operations		**(53)**	2,284
Total comprehensive (expense) income for the year		**(43,817)**	16,101
Total comprehensive (expense) income attributable to:			
— Shareholders of the Company		**(34,155)**	(2,776)
— Non-controlling interests		**(9,662)**	18,877
		(43,817)	16,101

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	18	**35,125**	21,743
Prepaid leasehold land payments	19(a)	**16,366**	7,986
Prepayments for acquisition of land use rights	19(b)	**7,016**	15,404
Prepayments for acquisition of property, plant and equipment		**761**	13,640
		59,268	58,773
Current assets			
Inventories	20	**83,944**	41,122
Prepaid leasehold land payments	19(a)	**334**	164
Trade and bills receivables	21	**144,044**	29,191
Deposits, prepayments and other receivables	22	**33,318**	78,003
Tax recoverable		**368**	—
Pledged bank deposits	23	**45,402**	34,762
Bank balances and cash	23	**14,242**	10,389
		321,652	193,631
Current liabilities			
Trade payables	24	**54,060**	19,243
Accruals and other payables	25	**47,596**	25,977
Tax payable		**—**	9,942
Borrowings – due within one year	26	**208,759**	118,141
Obligations under a finance lease	27	**6**	58
		310,421	173,361
Net current assets		**11,231**	20,270
Total assets less current liabilities		**70,499**	79,043
Non-current liabilities			
Obligations under a finance lease	27	**—**	19
Amounts due to the ultimate holding company	28	**49,826**	14,534
		49,826	14,553
Total assets less liabilities		**20,673**	64,490
Capital and reserves			
Share capital	29	**38,637**	38,637
Reserves		**(48,266)**	(14,111)
(Capital deficiency)/Equity attributable to shareholders of the Company		**(9,629)**	24,526
Non-controlling interests		**30,302**	39,964
Total equity		**20,673**	64,490

The consolidated financial statements on pages 27 to 95 were approved and authorised for issue by the Board of Directors on 28 March 2013 and is signed on its behalf by:

Lam Ching Kui
Director

Lam Lee G.
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to shareholders of the Company							
	Share capital	Share premium	Other reserve	Translation reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	38,637	145,716	6,906	460	(164,417)	27,302	18,124	45,426
(Loss) profit for the year	—	—	—	—	(3,729)	(3,729)	17,546	13,817
Other comprehensive income for the year	—	—	—	953	—	953	1,331	2,284
Total comprehensive income (expense) for the year	—	—	—	953	(3,729)	(2,776)	18,877	16,101
Change in non-controlling interests	—	—	—	—	—	—	2,963	2,963
At 31 December 2011 and 1 January 2012	**38,637**	**145,716**	**6,906**	**1,413**	**(168,146)**	**24,526**	**39,964**	**64,490**
Loss for the year	**—**	**—**	**—**	**—**	**(34,135)**	**(34,135)**	**(9,629)**	**(43,764)**
Other comprehensive expense for the year	**—**	**—**	**—**	**(20)**	**—**	**(20)**	**(33)**	**(53)**
Total comprehensive expense for the year	**—**	**—**	**—**	**(20)**	**(34,135)**	**(34,155)**	**(9,662)**	**(43,817)**
At 31 December 2012	**38,637**	**145,716**	**6,906**	**1,393**	**(202,281)**	**(9,629)**	**30,302**	**20,673**

Note:

Other reserve represents the share of a subsidiary's share premium arising from the allotment and issue of shares, and deemed contribution from shareholders of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Operating activities			
(Loss) profit for the year	13	**(43,764)**	13,817
Adjustments for:			
Finance costs	11	**7,489**	5,299
Interest income		**(633)**	(994)
Depreciation on property, plant and equipment	18	**2,684**	1,498
Amortisation on prepaid leasehold land payments	19(a)	**215**	167
Gain on disposal of subsidiaries		**—**	(3,476)
(Gain) loss on disposal of property, plant and equipment		**(2)**	20
Write back of trade and other payables		**(3,042)**	—
Impairment loss on trade receivables	21	**3,818**	—
Impairment loss on prepayments and other receivables		**23,848**	—
Impairment loss on inventories	20	**648**	—
Taxation	12	**(1,211)**	10,028
Operating cash flows before movements in working capital		**(9,950)**	26,359
(Increase) decrease in inventories		**(43,478)**	7,511
(Increase) decrease in trade and bills receivables		**(118,676)**	21,982
Decrease in deposits, prepayments and other receivables		**20,826**	6,485
(Increase) decrease in pledged bank deposits		**(10,645)**	2,010
Increase (decrease) in trade payables		**35,475**	(52,755)
Increase (decrease) in accruals and other payables		**22,589**	(45,579)
Cash used in operations		**(103,859)**	(33,987)
Tax paid		**(9,094)**	(2,198)
Net cash used in operating activities		**(112,953)**	(36,185)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Investing activities			
Interest received		**633**	994
Proceeds from disposal of property, plant and equipment		**12**	40
Payments for acquisition of property, plant and equipment		**(3,206)**	(10,092)
Payments for acquisition of prepaid leasehold land		**(378)**	(3,864)
Proceeds from disposal of subsidiaries		**—**	3,476
Net cash used in investing activities		**(2,939)**	(9,446)
Financing activities			
Interest paid		**(6,067)**	(5,299)
Repayment of borrowings		**(503,531)**	(465,370)
New borrowings raised		**594,170**	453,488
Repayments of obligations under finance lease		**(71)**	(69)
Increase in amounts due to the ultimate holding company		**35,292**	14,534
Increase in funding from non-controlling interests		**—**	2,963
Net cash from financing activities		**119,793**	247
Net increase (decrease) in cash and cash equivalents		**3,901**	(45,384)
Cash and cash equivalents at beginning of year		**10,389**	51,013
Effect of foreign exchange rate changes		**(48)**	4,760
Cash and cash equivalents at end of year		**14,242**	10,389
Analysis of cash and cash equivalent:			
Bank balances and cash	*23*	**14,242**	10,389

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands, British West Indies and the principal place of business of the Company is 13/F, Admiralty Centre 2, 18 Harcourt Road, Admiralty, Hong Kong.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars for the convenience of the investors as its shares are listed on the Stock Exchange.

The principal activities of the Group are the trading of athletic and athletic-style leisure footwear, working shoes, safety shoes, golf shoes and other functional shoes, and the manufacture and sale of modified starch and other biochemical products and agency trade of other biochemical products.

The ultimate holding company of the Group is Wai Chun Investment Fund ("Wai Chun"), a private investment fund incorporated in the Cayman Islands with limited liability.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Notwithstanding that the Group incurred a loss of approximately HK$43,764,000 for the year ended 31 December 2012 and that the Group's capital deficiency attributable to the shareholders of the Company is approximately HK$9,629,000 as at 31 December 2012, these consolidated financial statements have been prepared on a going concern basis as the directors of the Company are satisfied that the liquidity of the Group can be maintained in the coming year taking into consideration of the following arrangements:

(i) Wai Chun, the ultimate holding company, has agreed to provide adequate funds to enable the Group to meet in full its financial obligations when they fall due in the foreseeable future and Wai Chun would not demand for repayment of the amount of approximately HK$49,826,000 due to Wai Chun as at 31 December 2012 within twelve months from the date of the annual report; and

(ii) On 25 March 2013, the Board has planned to raise sufficient funds through the placements of shares or rights issue of shares which will be used for the Group's working capital and improve the liquidity of the Group. Wai Chun has agreed to act as the underwriter for the rights issue arrangement of the Company.

In view of the above, the directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital and other financial obligations. Accordingly, these consolidated financial statements have been prepared on a going concern basis and do not include any adjustments that would be required should the Group fail to continue as a going concern.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective for the Group's financial year beginning on 1 January 2012.

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Financial Instruments: Disclosure — Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

The application of the amendments to HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

New and revised HKFRSs issued but not yet effective *(Continued)*

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

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

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

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

Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012

The *Annual Improvements* to *HKFRSs 2009–2011 Cycle* include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 *Property, Plant* and Equipment and the amendments to HKAS 32 *Financial Instruments: Presentation*.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors anticipate that the amendments to HKAS 32 will have no material effect on the Group's consolidated financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

New and revised HKFRSs issued but not yet effective *(Continued)*

HKFRS 13 Fair Value Measurement *(Continued)*

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKFRS 7 and HKAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss, and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors anticipate that the application of other new and revised standards, amendments and interpretations will have no material impact on results and financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests have a deficit balance.

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Revenue recognition

Revenue is the amounts received and receivable for goods sold net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from agency trade business is recognised when the agreed services pursuant to prescribed agency contract have been provided.

Sub-letting income/rental income is recognised on a straight-line basis over the term of the relevant lease.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grants

Government grants are recognised as other income in profit or loss on a systematic basis over the periods necessary to match them with the costs for which they are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Leasing

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

The Group as lessor

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Prepaid leasehold land payments

Prepaid leasehold land payments represent upfront premium paid for use of land. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful life, using the straight-line method. The estimated useful life, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful life on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful life.

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

Foreign currencies

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences arising on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates at the dates of the transactions are used. Exchange difference arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Borrowing costs

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs *(Continued)*

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

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Share options granted by the Company

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provision are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Impairment losses of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses of tangible and intangible assets other than goodwill *(Continued)*

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories, including an appropriate portion of fixed and variable overhead expenses, are determined on a weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs to completion and costs necessary to make the sale.

Cash and cash equivalents

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;

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

(vi) 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).

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

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

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL) and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item in the consolidated income statement.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and bills receivables, deposits, prepayments and other receivables, pledged bank deposits, bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and bills receivables and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Classification as debt or equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instrument in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Equity instruments

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities at FVTPL (Continued)

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss is included in the “other gains and losses” line item in profit or loss and any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities (including accruals and other payables, borrowings, obligations under a finance lease and amounts due to the ultimate holding company) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

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

Derecognition

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Key sources of estimation uncertainty

The following are 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.

Depreciation of property, plant and equipment

The Group's net carrying values of property, plant and equipment as at 31 December 2012 were approximately HK$35,125,000 (2011: approximately HK$21,743,000). The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful life of 3 years to 25 years and after taking into account of their estimated residual values, using the straight-line method, at the rate of 5% to 33% per annum, commencing from the date in which the property, plant and equipment are available for use. The estimated useful life that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Impairment on trade and other receivables

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period is changed. The Group reassesses the impairment allowances at the end of each reporting period.

Impairment on inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and identified obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for the finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an impairment review on a product-by-product basis at the end of each reporting period and provides impairment loss on obsolete items.

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

Key sources of estimation uncertainty *(Continued)*

Prepayments for acquisition of land use rights

The Group assesses the carrying amounts of prepayments for acquisition of land use rights according to their net realisable amounts based on the value of these land use rights, taking into account estimated net sales values at prevailing market conditions. Provision is made when events or change in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgement and estimates.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt (which includes borrowings, amounts due to the ultimate holding company and obligations under a finance lease, net of cash and cash equivalents and pledged bank deposits) and total assets.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, sell assets to reduce debt, new share issues as well as the issue of new debt or the redemption of existing debts.

6. CAPITAL RISK MANAGEMENT *(Continued)*

Net debt to total assets ratio

The net debt to total assets ratio at the end of the reporting period was as follows:

	2012	2011
	HK$'000	*HK$'000*
Debts *(Note a)*	**258,591**	132,752
Cash and cash equivalents and pledged bank deposits *(see Note 23)*	**(59,644)**	(45,151)
Net debts	**198,947**	87,601
Total assets *(Note b)*	**380,920**	252,404
Net debt to total assets ratio	**52.2%**	34.7%

Notes:

(a) Debt comprises borrowings of approximately HK$208,759,000, obligations under a finance lease of approximately HK$6,000 and amounts due to the ultimate holding company of approximately HK$49,826,000, as detailed in notes 26, 27 and 28 respectively.

(b) Total assets include all non-current assets and current assets.

The net debt to total assets ratio was increased from 34.7% to 52.2% mainly due to the increase in borrowings and that the Group has incurred a net loss for the year of approximately HK$43,764,000.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012	2011
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**244,783**	181,389
Financial liabilities		
Other financial liabilities at amortised cost	**360,247**	177,972

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include prepayments for property, plant and equipment and land use rights, trade and bills receivables, deposits, prepayments and other receivables, pledged bank deposits, bank balances and cash, trade payables, accruals and other payables, borrowings, obligation under a finance lease and amounts due to the ultimate holding company. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, market risk (foreign currency risk, interest rate risk) and liquidity risk.

The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The carrying amounts of trade and other receivables, receivables from agency trade, pledged bank deposits and bank and cash balances included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

In order to minimise the credit risk, the Group trades only with recognised and creditworthy third parties and the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables, receivables from agency trade and other receivables at the end of each of the reporting periods during the year to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

In respect of agency trade business, the Group's policy that all customers should be recognised and creditworthy third parties and the credit terms are to be carefully reviewed and determined by the management. Receivable balances should be monitored and managed by management on an ongoing basis to ensure that the Group's exposure to bad debt is minimised.

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The Group has concentration of credit risk on trade receivables as 20% (2011: 45%) and 47% (2011: 67%) of the total trade receivables other than those from Agency Trade which was due from the Group's largest customer and the total of the three largest customers respectively. The Group's concentration of credit risk by geographical locations is mainly in The People's Republic of China (the "PRC") and The Republic of Korea (the "Korea"), which accounted for 99% (2011: 100%) of the total trade receivables as at 31 December 2012.

In respect of the Agency Trade segment, the Group has high concentration of credit risk on receivables from agency trade. Approximately 47% and 38% of the total trade and bills receivables of the Group from the Agency Trade segment were due from two largest independent customers. The Group has reviewed these receivables on a regular basis and provision for impairment is made where these is any identified loss.

In respect of deposits with banks, the Group mitigates its exposure to credit risk by placing deposits with financial institutions with high credit rating.

Foreign currency risk

The Group's currency risk is primarily through monetary assets and liabilities, including pledged bank deposits, cash and bank balances, amounts due to the ultimate holding company, trade receivables, deposits, prepayments and other receivables, accruals and other payables and borrowings that are denominated in a foreign currency i.e. currency other than the functional currency ("RMB") of the operations to which the transaction relate. The currencies giving rise to the risk are primarily Hong Kong dollars ("HKD") and United States dollars ("USD").

The Group currently does not have a foreign currency hedging policy. However, the management's policy is to closely monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Foreign currency risk *(Continued)*

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2012		2011	
	Hong Kong dollars	**United States dollars**	Hong Kong dollars	United States dollars
	HK$'000	***HK'000***	*HK$'000*	*HK$'000*
Cash and bank balances	**1,590**	**161**	4,427	124
Trade receivables	**852**	**134,309**	—	—
Deposits, prepayments and other receivables	**2,494**	**114**	12,486	—
Amounts due to the ultimate holding company	**(29,759)**	**—**	(14,533)	—
Trade payables	**(827)**	**(266)**	—	—
Accruals and other payables	**(3,180)**	**—**	(2,722)	—
Borrowings	**(2,570)**	**(72,740)**	(2,570)	—
	(31,400)	**61,578**	(2,912)	124

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Foreign currency risk *(Continued)*

Sensitivity analysis

The following table indicates the instantaneous change in the Group's (loss) profit after tax that would arise if the foreign exchange rates to which the Group has significant exposure as at the end of the reporting period had changed, assuming all other risk variable remained constant.

	2012		2011	
	Increase/ (decrease) in foreign exchange rate in %	**Effect on loss after tax** ***HK$'000***	Increase/ (decrease) in foreign exchange rate in %	Effect on profit after tax *HK$'000*
Hong Kong dollars	**5**	**1,570**	5	(146)
	(5)	**(1,570)**	(5)	146
United States dollars	**5**	**(3,079)**	5	6
	(5)	**3,079**	(5)	(6)

Results of the analysis as presented in the above table represent effects on the group entities' (loss) profit after tax measured in the functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purpose.

In the management's opinion, the sensitivity analysis is unrepresentative of inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings and fixed rate bills payables. Except for the variable rate bills payables, it is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk. The Group's exposure to cash flow interest rate risk is minimal.

The Group is also exposed to fair value interest rate risk in relation to amounts due to the ultimate holding company. The Group currently does not use any derivative contracts to hedge its exposure to fair value interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for derivatives and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2011: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2011: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2012 would increase/decrease by approximately HK$1,491,000 (profit for the year ended 31 December 2011: approximately HK$875,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due. The Group's management policy is to regularly monitor its current and expected liquidity positions to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all time so that Group can meet its short-term and long-term funding requirements and does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The management will also closely monitor the cash flow generated from operations and the Group's needs for different types of external financing and will negotiate for proper facilities and consider proper means of equity financing as appropriate.

The table below analysis the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Liquidity tables

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contracted undiscounted payments, was as follows:

	0 to 180 days	181 to 365 days	Over 1 year	Carrying values
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2012				
Non-derivative financial liabilities				
Trade payables	54,060	—	—	54,060
Accruals and other payables	47,596	—	—	47,596
Amounts due to the ultimate holding company	—	—	49,826	49,826
Bank and other borrowings	49,869	33,298	—	83,167
Bills payables	125,592	—	—	125,592
Obligations under a finance lease	6	—	—	6
	277,123	33,298	49,826	306,247

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables (Continued)

	0 to 180 days	181 to 365 days	Over 1 year	Carrying values
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2011				
Non-derivative financial liabilities				
Trade payables	16,556	912	1,775	19,243
Accruals and other payables	25,977	—	—	25,977
Amounts due to the ultimate holding company	—	—	14,534	14,534
Bank and other borrowings	73,760	4,934	—	78,694
Bills payables	39,447	—	—	39,447
Obligations under a finance lease	29	29	19	77
	155,769	5,875	16,328	177,972

Based on the continuous financing support of its ultimate holding company and the Board has planned to raise sufficient funds through placements of shares or rights issue of shares for increasing the Group's working capital and to improve the liquidity of the Group and that Wai Chun has agreed to act as underwriter of the rights issue arrangement of the Company, the directors consider that the Group has sufficient financial resources to satisfy its working capital requirements and payments of liabilities and its forthcoming future capital commitments as and when they fall due.

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Financial instruments carried at fair value

The carrying value of financial instruments measured at fair value at 31 December 2012 across the three levels of the fair value hierarchy defined in HKFRS 7 *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirely based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2012, the Group did not have any financial instruments carried at fair value all of which are based on the Level 1 to Level 3 for the fair value hierarchy.

During the year ended 31 December 2012, there were no transfers between financial instruments in Level 1 and 2.

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

- The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted active bid prices and ask prices respectively; and
- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

8. TURNOVER

Turnover represents the amounts received and receivable for goods sold net of discounts and sales related taxes. An analysis of the Group's revenue for the year is as follows:

	2012	2011
	HK$'000	*HK$'000*
Revenue from modified starch and other biochemical products	**369,740**	325,708
Revenue from trading of footwear	**10,940**	36,602
Revenue from agency trade of other biochemical products	**5,998**	—
Total	**386,678**	362,310

See note 10 of an analysis of revenue by major products.

9. OTHER REVENUE

	2012	2011
	HK$'000	*HK$'000*
Interest income	**633**	994
Rental income *(Note a)*	**—**	2,551
Cargo handling commission	**—**	1,158
Gain on disposal of property, plant and equipment	**2**	—
Gain on exchange	**—**	199
Government grants *(Note b)*	**—**	4,078
Write back of trade and other payables	**3,042**	—
Others	**461**	693
Total	**4,138**	9,673

Note a: The PRC subsidiaries had rented out some of their plant and machinery to outsiders.

Note b: Government grants mainly represent allowances granted by the local government as the PRC subsidiaries were operating in the businesses of manufacture and sale of modified starch and other biochemical products which are considered as agricultural related businesses.

10. SEGMENT INFORMATION

The chief operating decision maker ("CODM") has been identified as the Group's chief executive officer. The CODM reviews the Group's internal reporting for resource allocation and assessment of performance.

For management purposes, the Group's reportable segments under HKFRS 8 are as follows:

Footwear	—	Trading of athletic and athletic-style leisure footwear, working shoes, safety shoes, golf shoes and other functional shoes
Modified starch and other biochemical products	—	Manufacture and sale of modified starch and other biochemical products
Agency trade business	—	Agency trade of other biochemical products

The reportable segments have been identified on the basis of internal management reports prepared in accordance with accounting policies conforming to HKFRSs that are regularly reviewed by the executive director of the Company.

Segments profit (loss) represents profit earned or loss incurred by each segment without allocation of other revenue, gain on disposal of subsidiaries, impairment loss on prepayments and other receivables, central administration costs (including directors' salaries), and finance costs.

10. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Segment revenues and results

The following is an analysis of the Group's revenues and results by reportable segments:

	2012				2011			
	Modified starch and other biochemical products	Footwear	Agency trade business	Consolidated	Modified starch and other biochemical products	Footwear	Agency trade business	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue	369,740	10,940	5,998	386,678	325,708	36,602	—	362,310
Segment results	(6,890)	(7,059)	5,998	(7,951)	30,846	(2,074)	—	28,772
Other revenue				4,138				9,673
Gain on disposal of subsidiaries				—				3,476
Impairment loss on prepayments and other receivables				(23,848)				—
Central administration costs				(9,825)				(12,777)
Finance costs				(7,489)				(5,299)
(Loss) profit before taxation				(44,975)				23,845
Taxation				1,211				(10,028)
(Loss) profit for the year				(43,764)				13,817

Revenue reported above represents revenue generated from external customers. There was no inter-segment sale for both years.

10. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Segment assets and liabilities

	2012				2011			
	Modified starch and other biochemical products	Footwear	Agency trade business	Consolidated	Modified starch and other biochemical products	Footwear	Agency trade business	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets								
Segment assets	252,092	3,119	123,355	378,566	234,725	4,399	—	239,124
Unallocated assets				2,354				13,280
Consolidated assets				380,920				252,404
Liabilities								
Segment liabilities	260,517	13,203	63,392	337,112	168,088	214	—	168,302
Unallocated liabilities				23,135				19,612
Consolidated liabilities				360,247				187,914
Geographical assets								
Hong Kong				5,474				17,712
PRC				375,446				234,692
				380,920				252,404

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

- assets used jointly by segments are allocated on the basis of the revenues earned by the respective individual segments; and
- liabilities for which segments are jointly liable are allocated in proportion to segment assets.

10. SEGMENT INFORMATION *(Continued)*

Other information

	2012				
	Modified starch and other biochemical products	**Footwear**	**Agency trade business**	**Unallocated**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Additions to non-current assets	**16,062**	**23**	**—**	**—**	**16,085**
Depreciation and amortisation	**2,613**	**242**	**—**	**44**	**2,899**
Prepayments for acquisition of land use rights	**7,016**	**—**	**—**	**—**	**7,016**
Prepayments for acquisition of property, plant and equipment	**761**	**—**	**—**	**—**	**761**

	2011				
	Modified starch and other biochemical products	Footwear	Agency trade business	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions to non-current assets	6,707	789	—	—	7,496
Depreciation and amortisation	1,581	41	—	43	1,665
Prepayments for acquisition of land use rights	15,404	—	—	—	15,404
Prepayments for acquisition of property, plant and equipment	13,640	—	—	—	13,640

10. SEGMENT INFORMATION *(Continued)*

Geographical information

For the years ended 31 December 2012 and 2011, the Group's operations were principally located in Hong Kong (country of domicile), The People's Republic of China (the "PRC") and The Republic of Korea (the "Korea").

The following is an analysis of the Group's revenue from external customers and non-current assets by geographical locations:

	Revenue from external customers		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**16,938**	36,602	**537**	799
Korea	**37,487**	123,844	**—**	—
PRC	**264,438**	141,851	**58,731**	57,974
Others	**67,815**	60,013	**—**	—
	386,678	362,310	**59,268**	58,773

Information on major customers

Included in revenue arising from sales of modified starch and other biochemical products of approximately HK$369,740,000 are revenue of approximately HK$62,123,000 (2011: HK$Nil) arising from sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's sale for 2012 and 2011.

Information on major suppliers

Included in purchases arising from purchases of modified starch and other biochemical products of approximately HK$382,731,000 are purchases of approximately HK$205,762,000 and approximately HK$54,108,000 respectively (2011: HK$110,858,000 and HK$33,716,000) arising from purchases from the Group's two largest suppliers. No other single supplier contributed 10% or more to the Group's purchases for 2012 and 2011.

11. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interests on:		
— Bank loans, bank overdrafts and bills payables wholly repayable within five years	**6,060**	4,920
— Finance lease	**7**	15
— Loan from the ultimate holding company	**1,262**	254
— Short-term loan from a related company	**—**	9
— Short-term loan from an independent third party	**160**	101
Total	**7,489**	5,299

12. TAXATION

	2012	2011
	HK$'000	*HK$'000*
Tax expense attributable to the Group		
Current tax:		
Hong Kong	**—**	—
PRC	**—**	9,723
	—	9,723
(Over) under provision in prior years:		
Hong Kong	**—**	—
PRC	**(1,211)**	305
	(1,211)	305
Total income tax (credit) expense recognised to the consolidated income statement	**(1,211)**	10,028

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits in Hong Kong for the year (2011: HK$Nil).

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2011: 25%).

12. TAXATION *(Continued)*

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

	2012	2011
	HK$'000	*HK$'000*
(Loss) profit before taxation	**(44,975)**	23,845
Tax at the Hong Kong income tax rate of 16.5% (2011: 16.5%)	**(7,421)**	3,935
Effect of different tax rates of subsidiaries operating in PRC	**(1,364)**	3,306
Tax effect of expenses not deductible for tax purpose	**3,630**	6
Tax effect of deductible temporary differences not recognised	**31**	(81)
Tax effect of tax losses not recognised	**5,124**	2,557
(Over) under-provision for prior year	**(1,211)**	305
Income tax (credit) expense for the year	**(1,211)**	10,028

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise tax losses amounting to HK$122,407,000 (2011: HK$99,031,000) that can be carried forward against future taxable income. These tax losses have no expiry date except that approximately HK$16,010,000 (2011: HK$Nil) will expire during the period from 2013 to 2017.

At 31 December 2012, the unrecognised deferred tax liabilities were approximately HK$1,123,000 (2011: approximately HK$1,795,000), relating to withholding tax that would be payable for undistributed profits of PRC subsidiaries, as the directors consider that the timing for reversal of the related temporary differences can be controlled and such temporary differences will not be reversal in the forseeable future. The total undistributed profits of these PRC subsidiaries as at 31 December 2012 amounted to approximately HK$22,453,000 (2011: HK$35,894,000).

13. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year is arrived at after charging (crediting) the following items:

	2012	2011
	HK$'000	*HK$'000*
Auditor's remuneration	**500**	500
Cost of inventories *(Note 20)*	**363,813**	310,823
Interest expenses	**7,489**	5,299
Impairment loss on trade receivables	**3,818**	—
Impairment loss on prepayments and other receivables	**23,848**	—
Depreciation on property, plant and equipment	**2,684**	1,498
(Gain) loss on disposal of property, plant and equipment	**(2)**	20
Loss on exchange, net	**857**	—
Amortisation on prepaid leasehold land payments	**215**	167
Staff costs (including directors' emoluments and retirement benefit costs)	**11,688**	9,851

14. DIRECTORS' EMOLUMENTS

(a) The aggregate amounts of emoluments payable to directors of the Company during the year were as follows:

	2012	2011
	HK$'000	*HK$'000*
Fees	**360**	360
Other emoluments:		
Basic salaries, other allowance and benefits in kind	**2,994**	3,127
Retirement benefit costs		
— Defined contribution retirement plans	**21**	17
	3,015	3,144
Total emoluments	**3,375**	3,504

14. DIRECTORS' EMOLUMENTS *(Continued)*

(b) Directors' emoluments

The emoluments paid or payable to each of the six (2011: six) directors were as follows:

		Other emoluments		
	Directors' fees	Basic salaries, other allowance and benefits in kind	Defined contribution retirement plans	2012 Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Lam Ching Kui	—	2,600	13	2,613
Lu Jun Wu *(Note 1)*	—	394	8	402
Independent non-executive directors:				
Shaw Lut, Leonardo *(Note 2)*	120	—	—	120
Chan Chun Wai, Tony	120	—	—	120
Wong Wai Man, Raymond *(Note 3)*	107	—	—	107
Hau Pak Man *(Note 4)*	13	—	—	13
Total for 2012	360	2,994	21	3,375

14. DIRECTORS' EMOLUMENTS *(Continued)*

(b) Directors' emoluments (*Continued*)

		Other emoluments		
	Directors' fees	Basic salaries, other allowance and benefits in kind	Defined contribution retirement plans	2011 Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Lam Ching Kui	—	2,800	12	2,812
Guo Qing Hua *(Note 5)*	—	117	5	122
Lu Jun Wu	—	210	—	210
Independent Non-executive directors:				
Shaw Lut, Leonardo	120	—	—	120
Chan Chun Wai, Tony	120	—	—	120
Wong Wai Man, Raymond	120	—	—	120
Total for 2011	360	3,127	17	3,504

Notes:

1. Appointed on 20 June 2011 and resigned on 2 January 2013
2. Resigned on 3 January 2013
3. Resigned on 21 November 2012
4. Appointed on 21 November 2012
5. Resigned on 20 June 2011

No director has waived or agreed to waive any emoluments during the years ended 31 December 2011 and 2012.

14. DIRECTORS' EMOLUMENTS *(Continued)*

(c) During the year, being two (2011: three) of the five highest paid individuals in the Group, the emoluments of these executive directors are set out above. The emoluments of the remaining three (2011: two) individuals were as follows:

	2012	2011
	HK$'000	*HK$'000*
Basic salaries, other allowance and benefits in kind	**1,282**	912
Retirement benefit costs		
— Defined contribution retirement plans	**35**	18
	1,317	930

The emoluments of the aforementioned three (2011: two) highest paid individuals were within the band of nil to HK$1,000,000 for both years.

No emoluments were paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during each of the two years ended 31 December 2012 and 2011.

15. DIVIDEND

No dividend was paid or proposed during 2012 and 2011, nor has any dividend been proposed since the end of the reporting period.

16. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of HK$21,675,000 (2011: HK$12,631,000) which has been dealt with in the financial statements of the Company.

17. LOSS PER SHARE

The calculation of basic loss per share was based on the Group's loss attributable to shareholders of the Company of approximately HK$34,135,000 (2011: HK$3,729,000) and the number of ordinary shares of 15,454,685,376 (2011: 15,454,685,376) during the year.

The denominators used are the same as those detailed above for both basic and diluted loss per share.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements, furniture and fixtures	Machinery and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 January 2011	5,007	1,727	3,399	8,819	1,614	20,566
Exchange difference	249	85	2	433	38	807
Additions	1,568	3,126	870	821	1,111	7,496
Disposals/written off	—	—	—	(75)	—	(75)
Transfer	1,004	(2,301)	—	1,297	—	—
At 31 December 2011 and 1 January 2012	7,828	2,637	4,271	11,295	2,763	28,794
Exchange difference	(1)	—	(1)	(2)	—	(4)
Additions	941	5,464	431	9,173	76	16,085
Disposals/written off	—	—	(1,196)	(3)	(923)	(2,122)
Transfer	4,089	(4,089)	—	—	—	—
At 31 December 2012	12,857	4,012	3,505	20,463	1,916	42,753
ACCUMULATED DEPRECIATION						
At 1 January 2011	259	—	3,284	791	1,141	5,475
Exchange difference	19	—	1	54	19	93
Charge for the year	299	—	98	943	158	1,498
Disposals/written off	—	—	—	(15)	—	(15)
At 31 December 2011 and 1 January 2012	577	—	3,383	1,773	1,318	7,051
Exchange difference	1	—	—	4	—	5
Charge for the year	383	—	392	1,648	261	2,684
Disposals/written off	—	—	(1,196)	(3)	(913)	(2,112)
At 31 December 2012	961	—	2,579	3,422	666	7,628
NET CARRYING VALUES						
At 31 December 2012	11,896	4,012	926	17,041	1,250	35,125
At 31 December 2011	7,251	2,637	888	9,522	1,445	21,743

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis less their residual values at the following rates per annum:

Buildings	Over the term of the lease, or 15 – 25 years
Construction in progress	Nil
Leasehold improvements, furniture and fixtures	20%-33.33%
Machinery and equipment	6.6%-33.33%
Motor vehicles	10%-20%

Construction in progress represents land and building under construction and plant and equipment pending for installation in the PRC.

19. PREPAID LEASEHOLD LAND PAYMENTS/PREPAYMENTS FOR ACQUISITION OF LAND USE RIGHTS

(a) Prepaid leasehold land payments

	2012	2011
	HK$'000	*HK$'000*
Net carrying amount:		
At 1 January	**8,150**	7,927
Additions	**378**	—
Transfer from prepayments for acquisition of land use rights *(Note 19(b))*	**8,315**	—
Exchange difference	**72**	390
Amortisation	**(215)**	(167)
At 31 December	**16,700**	8,150
Analysed for reporting purposes as:		
Current portion	**334**	164
Non-current portion	**16,366**	7,986
	16,700	8,150

19. PREPAID LEASEHOLD LAND PAYMENTS/PREPAYMENTS FOR ACQUISITION OF LAND USE RIGHTS *(Continued)*

(a) Prepaid leasehold land payments *(Continued)*

Prepaid leasehold land payments represent prepayments of land use rights premiums to the PRC authority. The Group's leasehold land is located in PRC for industrial purpose. The Group's land use rights is granted for a term of 50 years.

(b) Prepayments for acquisition of land use rights

	2012	2011
	HK$'000	*HK$'000*
At 1 January	**15,404**	10,971
Additions	**—**	3,864
Exchange difference	**(73)**	569
Transfer to prepaid leasehold land payments	**(8,315)**	—
At 31 December	**7,016**	15,404

The Group made prepayments for the acquisition of land use right in PRC for development into properties held for own use.

20. INVENTORIES

	2012	2011
	HK$'000	*HK$'000*
Raw materials	**2,440**	1,902
Finished goods	**82,152**	39,220
	84,592	41,122
Less: Impairment loss on inventories	**(648)**	—
Total	**83,944**	41,122

20. INVENTORIES *(Continued)*

The analysis of the amount of inventories recognised as an expense and included in profit or loss as follow:

	2012	2011
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**363,165**	310,823
Impairment loss on inventories	**648**	—
Total	**363,813**	310,823

21. TRADE AND BILLS RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**24,507**	29,044
Receivables from agency trade business	**123,355**	—
Bills receivables	**—**	147
	147,862	29,191
Less: provision for impairment	**(3,818)**	—
Total	**144,044**	29,191

The Group normally allows average credit period of 30 to 180 days to its customers. There was no recent history of default associated with the above current receivables. At 31 December 2012, the Group has assessed the recoverability of the receivables past due and made a provision for impairment. The provision for impairment is made unless the Group has concluded that recovery is remote, in which case the unrecovered loss is written off against trade receivables and the provision for impairment directly. The Group does not hold any collateral over these balances.

21. TRADE AND BILLS RECEIVABLES *(Continued)*

The aging analysis of trade and bills receivables at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2012	2011
	HK$'000	*HK$'000*
0-30 days	**50,157**	17,922
31-60 days	**17,665**	111
61-90 days	**25,773**	7,041
91-180 days	**48,999**	3,740
Over 180 days	**1,450**	377
Total	**144,044**	29,191

The movements in the provision for impairment of trade and bills receivables are as follows:

	2012	2011
	HK$'000	*HK$'000*
At 1 January	**—**	—
Provision made	**3,818**	—
At 31 December	**3,818**	—

21. TRADE AND BILLS RECEIVABLES *(Continued)*

The aging analysis of trade and bills receivables which are past due but not impaired, is as follows:

	2012	2011
	HK$'000	*HK$'000*
Overdue by:		
0-30 days	**278**	337
31-60 days	**449**	—
61-90 days	**215**	—
91-180 days	**484**	—
Over 180 days	**24**	—
Total	**1,450**	377

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been any significant change in the credit quality of these customers and the balances are still considered to be fully recoverable.

Approximately HK$57,087,000 of receivables from agency trade business has subsequently been settled after the end of reporting period.

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Prepayments for inventories	**5,224**	60,000
Guarantee deposits for leasehold land *(Note)*	**17,876**	—
Other prepayments	**1,993**	22
Valued added tax refund	**2,804**	—
Other receivables	**4,007**	15,993
Rental and utilities deposits	**1,414**	1,988
Total	**33,318**	78,003

As at 31 December 2012, prepayments and other receivables of approximately HK$23,848,000 (2011: HK$Nil) were considered impaired for which full provision of impairment has been made. The director made the impairment assessment for significant long aging balances regularly.

Include in the above provision of impairment is HK$10,452,000, being refundable deposit paid to independent third parties for the proposed acquisition of 30% interest of Minera Chile Explotaction Limitada, a mining project in 2007. The Company has started legal action in Beijing against such independent third parties for recovery for the deposit. The remaining impairment of HK$13,396,000 represents the long aging balance of prepayments and other receivables that the recoverability of which was in doubt and expected to be unrecoverable.

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

Note:

The guarantee deposits for leasehold land were paid to the PRC authority for carrying out construction on the leasehold land. The guarantee deposits will be refunded upon the completion of industrial construction and getting approval from the PRC authority.

23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2012	2011
	HK$'000	*HK$'000*
Bank balances and cash	**14,242**	10,389
Pledged bank deposits	**45,402**	34,762
Total	**59,644**	45,151

As at 31 December 2012, the balances that were placed with banks in the PRC amounted to HK$58,049,000 (2011: HK$38,832,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Bank balances carry interest at market rates which range from 0.5% to 3.0% (2011: 0.5% to 3.3%) per annum.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to approximately HK$45,402,000 (2011: HK$34,762,000) have been pledged to secure bills payables and short-term borrowings and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings with maturity period of 3 to 6 months.

The bank balances and pledged bank deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

The average credit period on purchases of goods ranges from 30 to 180 days (2011: 30 to 180 days). The Group has financial risk management policies to ensure that all payables are paid within the credit timeframe. The following is an aging analysis of trade payables is based on the invoice date:

	2012	2011
	HK$'000	*HK$'000*
0-30 days	**26,248**	7,131
31-60 days	**14,288**	6,758
61-90 days	**2,062**	621
91-180 days	**8,263**	2,046
Past due	**3,199**	2,687
Total	**54,060**	19,243

25. ACCRUALS AND OTHER PAYABLES

	2012	2011
	HK$'000	*HK$'000*
Payroll and welfare payables	**845**	431
Accrued operating expenses	**4,588**	2,291
Receipts in advance from customers	**31,299**	21,862
Advance from an independent third party *(Note)*	**8,982**	1,172
Other tax payables	**157**	19
Others	**1,725**	202
Total	**47,596**	25,977

Note: The amounts are unsecured, interest free and had no fixed term of repayment.

26. BORROWINGS

	2012	2011
	HK$'000	*HK$'000*
Bank loans *(Note a)*	80,597	76,124
Loan from an independent third party *(Note b)*	2,570	2,570
Bills payables *(Note c)*	62,200	39,447
Bills payables in relation to agency trade business *(Note c)*	63,392	—
Total	208,759	118,141
Secured	206,189	76,124
Unsecured	2,570	42,017
Total	208,759	118,141

Notes:

(a) Secured by a guarantee given by a minority shareholder of a subsidiary and the trade receivables – tax refund account of that subsidiary. All bank loans are denominated in Renminbi with variable interest rate from 4.9% to 11.0% (2011: 2.0% to 9.0%) per annum.

(b) Bearing interest at HKD Prime + 1% annually based on Standard Chartered Bank (Hong Kong) Limited.

(c) All bills payables were charged at variable interest rate from 4.9% to 6.7% and secured by pledged bank deposits of approximately HK$45,402,000 (2011: HK$34,762,000).

27. OBLIGATIONS UNDER A FINANCE LEASE

The Group leased certain of its motor vehicle under a finance lease. The average lease term is 3 years (2011: 3 years). The interest underlying all obligations under a finance lease is charged at floating rate at the respective contract dates for both of the years per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance lease:				
Within one year	**6**	64	**6**	58
In more than one year and not more than five years	**—**	20	**—**	19
In more than five years	**—**	—	**—**	—
	6	84	**6**	77
Less: future finance charges	**—**	(7)	**N/A**	N/A
Present value of lease obligations	**6**	77	**6**	77
Less: Amounts due for settlement within 12 months (shown under current liabilities)			**(6)**	(58)
Amounts due for settlement after 12 months			**—**	19

The Group's obligations under a finance lease are secured by the lessor's title to the leased assets.

28. AMOUNTS DUE TO THE ULTIMATE HOLDING COMPANY

The amounts due were unsecured, interest bearing at 0% to 6.25% for both years and had no fixed terms of repayment. The ultimate holding company, Wai Chun has confirmed that the outstanding balance of its current account at the year end will not be repayable within one year from the date of the annual report.

29. SHARE CAPITAL

	Number of shares of HK$0.0025 each	Amount
		HK$'000
Authorised:		
Balance as at 1 January 2011 and 31 December 2011 and 31 December 2012	40,000,000,000	100,000
Issued and fully paid:		
Balance as at 1 January 2011 and 31 December 2011 and 31 December 2012	15,454,685,376	38,637

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

30. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

The employees of PRC subsidiaries are members of defined contribution plans organised by PRC municipal and provincial government authorities in the PRC. The PRC subsidiaries are required to make monthly contributions to these plans at a fixed percentage of the employee's basic salary. The only obligation of the Group with respect to the retirement benefit scheme in the PRC is to make the required contributions under such contribution plans. The local government authority is responsible for the entire pension obligations payable to retired employees.

30. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

Defined contribution retirement plans *(Continued)*

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

The total expense recognised in the consolidated income statement of approximately HK$173,000 (2011: approximately HK$137,000) represents contribution to these plans by the Group at rates specified in the rules of the plans.

The Group has no other material obligation for the payment of pension benefits beyond the contributions described as above.

31. OPERATING LEASES COMMITMENTS

The Group as lessee

	2012 ***HK$'000***	2011 *HK$'000*
Lease payments in respect of rented premises paid under operating leases during the year	**3,225**	2,181

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

	2012 ***HK$'000***	2011 *HK$'000*
Within one year	**2,657**	3,238
In the second to fifth year inclusive	—	2,657
Total	**2,657**	5,895

31. OPERATING LEASES COMMITMENTS *(Continued)*

The Group as lessee *(Continued)*

Operating lease payments represent rental payables by the Group for its office premises in Hong Kong and the PRC. Leases and rentals are negotiated and fixed respectively for an average term of two years.

32. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group:

	2012	2011
	HK$'000	*HK$'000*
Bank deposits	**45,402**	34,762
Prepaid leasehold land payments	**9,944**	—
Trade receivables — tax refund account	—	2,798
Total	**55,346**	37,560

33. CAPITAL COMMITMENTS

Capital commitments outstanding as at 31 December 2012 were as follows:

	2012	2011
	HK$'000	*HK$'000*
Contracted but not provided in the consolidated financial statements	—	4,697
Authorised but not contracted in the consolidated financial statements	—	—
Total	—	4,697

34. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(a) Transactions with related parties

During the year, the Group entered into the following transactions with related parties. The transactions were carried out at estimated market prices determined by the directors of the Company.

Name of related parties	Nature of transactions	2012 HK$'000	2011 HK$'000	Interested director
Wai Chun Investment Fund	Interest expenses	1,262	254	Lam Ching Kui
Wai Chun Group Holdings Limited	Interest expenses	—	9	Lam Ching Kui
Wai Chun Holdings Group Limited	Rental expenses	3,188	531	Lam Ching Kui

(b) Key management personnel remuneration

The remuneration of directors of the Company and other members of key management personnel during the year was as follows:

	2012 HK$'000	2011 HK$'000
Short-term employee benefits	3,856	3,964
Post-employment benefits	29	23
Total	3,885	3,987

35. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme:

Pursuant to a share option scheme adopted by the shareholders of the Company on 10 June 2003 (the "SOS"), the Company may, at their discretion, invite full-time employees of the Group, including Directors of the Company and its subsidiaries, and any suppliers, consultants, agents and advisors, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for shares.

The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the shares on the Stock Exchange on the date of grant or the nominal value of the shares.

The SOS will remain in force for a period of 10 years commencing on 10 June 2003.

The share options under the SOS are exercisable at any time for a period to be determined by the directors, which shall not more than 10 years after the date of grant.

The total number of shares in respect of which options may be granted under the SOS is not permitted to exceed 10% of the shares in issue on the date of approval of the SOS without prior approval from the Company's shareholders. No option may be granted in any 12-month period to any one employee which if exercised in full would result in the total number of shares already issued and issuable to the participant under all the options previously granted to the participant and the said option exceeding 1% of the number of shares issued and issuable under all the options which may be granted under the SOS or any other share option schemes at the time it is proposed to grant the relevant options to that employee.

Options granted under the SOS must be taken up within 28 days of the grant upon payment of HK$10.00 per grant.

At 31 December 2012, no share option was granted under the SOS and no share option was lapsed or cancelled during the year.

36. SUMMARISED STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Interests in subsidiaries		**12,214**	7,230
Plant and equipment		**—**	43
		12,214	7,273
Current assets			
Deposits, prepayments and other receivables		**1,952**	11,936
Amounts due from subsidiaries		**12,125**	12,089
Bank balances and cash		**344**	1,300
		14,421	25,325
Current liabilities			
Accruals and other payables		**2,995**	2,683
Borrowings — due within one year		**2,570**	2,570
		5,565	5,253
Net current assets		**8,856**	20,072
Total assets less current liabilities		**21,070**	27,345
Non-current liability			
Amounts due to the ultimate holding company	*28*	**29,759**	14,359
Net (liabilities)/assets		**(8,689)**	12,986
Capital and reserves			
Share capital	*29*	**38,637**	38,637
Reserves	*37*	**(47,326)**	(25,651)
(Capital deficiency)/Total equity		**(8,689)**	12,986

37. RESERVES

The Company

	Share premium	Other reserves	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	145,716	62,934	(221,670)	(13,020)
Total comprehensive expense for the year	—	—	(12,631)	(12,631)
At 31 December 2011 and 1 January 2012	145,716	62,934	(234,301)	(25,651)
Total comprehensive expense for the year	—	—	(21,675)	(21,675)
At 31 December 2012	145,716	62,934	(255,976)	(47,326)

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of company	Place of incorporation/ operation	Nominal value of issued and fully paid share capital/ registered capital	Proportion of ownership interest and voting power held by the Company				Principal activities
			Directly		Indirectly		
			2012	2011	**2012**	2011	
Wai Chun Incorporation Limited	Hong Kong	Ordinary share of HK$ 1,000	**100%**	100%	**—**	—	Trading of footwear
Wai Chun Industrial (HK) Limited	Hong Kong	Ordinary share of HK$ 1,000	**—**	—	**100%**	100%	Investment holding
Weifang Century-Light Biology Science Co., Ltd.	PRC	Registered capital USD 2,929,000	**—**	—	**51%**	51%	Manufacturing of modified starch and biochemical products
Century-light Industry Co., Ltd.	PRC	Registered capital RMB 10,000,000	**—**	—	**26%**	26%	Trading of modified starch and biochemical products
Weifang Jia You You Zhi Co., Ltd.	PRC	Registered capital RMB 10,000,000	**—**	—	**51%**	—	Not yet commenced business

39. COMPARATIVE FIGURES

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

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**386,678**	362,310	284,128	13,137	82,480
(Loss) profit before taxation	**(44,975)**	23,845	24,298	(22,743)	(72,995)
Taxation	**1,211**	(10,028)	(893)	—	—
(Loss) profit for the year	**(43,764)**	13,817	23,405	(22,743)	(72,995)
Non-controlling interests	**9,629**	(17,546)	(3,100)	—	6,885

ASSETS AND LIABILITIES

	At 31 December				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total Assets	**380,920**	252,404	314,278	40,425	65,793
Total Liabilities	**(360,247)**	(187,914)	(268,852)	(127,503)	(162,562)
	20,673	64,490	45,426	(87,078)	(96,769)
Non-controlling interests	**(30,302)**	(39,964)	(18,124)	20,980	20,980
(Capital deficiency) equity attributable to shareholders of the Company	**(9,629)**	24,526	27,302	(66,098)	(75,789)
(Loss) earnings per share *(HK cents)*	**(0.22)**	0.02	0.13	(0.20)	(0.62)