

MERDEKA

Merdeka Resources Holdings Limited

萬德資源集團有限公司*

STOCK CODE 股份代號：8163

* for identification purposes only

* 僅供識別

ANNUAL REPORT 2011 年報

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This report, for which the directors of Merdeka Resources Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Merdeka Resources Holdings Limited. The directors of Merdeka Resources Holdings Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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由於創業板上市公司新興的性質所然，在創業板買賣的證券可能會較於主板買賣之證券承受較大的市場波動風險，同時無法保證在創業板買賣的證券會有高流通量的市場。

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* 僅供識別

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ma Hang Kon, Louis (*Chief Executive Officer*)
Mr. Lai Wing Hung
Mr. Wong Shui Lung

Non-executive Directors

Mr. Yeh Shuen Ji (*Chairman*)
Mr. Bai Baohua

Independent Non-executive Directors

Mr. Lam Kin Kau, Mark
Mr. Fung Hoi Wing, Henry
Mr. Lau Ho Wai, Lucas

COMPANY SECRETARY

Mr. Lai Yau Hong, Thomson

COMPLIANCE OFFICER

Mr. Ma Hang Kon, Louis

AUDIT COMMITTEE

Mr. Lam Kin Kau, Mark
Mr. Fung Hoi Wing, Henry
Mr. Lau Ho Wai, Lucas

REMUNERATION COMMITTEE

Mr. Ma Hang Kon, Louis
Mr. Lai Wing Hung
Mr. Lam Kin Kau, Mark
Mr. Fung Hoi Wing, Henry
Mr. Lau Ho Wai, Lucas

NOMINATION COMMITTEE

Mr. Ma Hang Kon, Louis
Mr. Lai Wing Hung
Mr. Lam Kin Kau, Mark
Mr. Fung Hoi Wing, Henry
Mr. Lau Ho Wai, Lucas

AUTHORISED REPRESENTATIVE

Mr. Ma Hang Kon, Louis
Mr. Lai Yau Hong, Thomson

AUDITORS

Crowe Horwath (HK) CPA Limited

PRINCIPAL BANKER

Nanyang Commercial Bank Limited

REGISTERED OFFICE

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Grand Cayman KY1-1111
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
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Wanchai
Hong Kong

STOCK CODE

8163

WEBSITE

www.merdeka.com.hk

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of Merdeka Resources Holdings Limited (the “Company”), I am pleased to present the 2011 annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2011. During the year, the Group’s principal businesses continued to be forestry, plantation and trading.

BUSINESS REVIEW

The Group’s forestry business included upstream operation of logging and downstream operation of timber processing in Papua, Indonesia. In 2011, macro business environment for forestry and timber products generally remained positive. According to the Indices of Market Prices for Non-Fuel and Fuel Commodities published by International Monetary Fund (the “IMF Indices”), the index of timber increased from 101.6 in 2010 to 111.6 in 2011. While political uncertainty in the Middle-East and North Africa, sovereign debts crisis in the US and Europe and disaster of earthquake and tsunami in Japan had affected the global economic recovery in 2011, the increase in money supply by major economies generally pushed up the price levels of commodities. Japan’s post earthquake reconstruction activities also increased the demand of timber. In addition, despite its central government’s implementation of various measures to curb the overheating of its economy, China still recorded a 9% economy growth in 2011, notably contributed by the housing and infrastructure sector. According to the State Forestry Administration of the PRC, China’s total value of trade in forest products amounted to US\$97.7 billion for the first 10 months of 2011, representing 30.4% growth compared to the same period of 2010. In particular, the import amount was US\$53.5 billion for the period, 41.5% higher than that in 2010. Rapid urbanization and a growing middle class population in China will continue to drive demand for timber and other consumer products.

The Group’s plantation business during the year represented mainly the plantation of seedlings of palm trees in Papua, Indonesia. As a major vegetable oil, palm oil is commonly used in food products. In addition, like other vegetable oil, it can be used to create biodiesel. The general inflation pressure in food-related products, as well as the increasing demand for fuel, driven by emerging economies like China and India, continued to provide strong support for the palm oil price in 2011. According to the IMF Indices, the index of palm oil increased from 233.9 in 2010 to 292.8 in 2011.

OPERATION REVIEW

After the change of management and restructuring of the board of directors of the Company (the “Board”) in late 2010 and early 2011, the Group monitored closely and devoted resources to its operations in Indonesia. In 2011, we continued to invest in infrastructure, including the building of roads and bridges to support our forestry and plantation businesses. During the year, there was steady progress in our upstream forestry operation. Contributed by our logging activities, we first recorded revenue from sale of wood in 2011, amounting to approximately HK\$4.8 million.

In respect of our plantation business, the management performed extensive assessment on the condition of palm tree seedlings and reviewed the Group’s previous subcontracting arrangement in 2011. To exercise closer and better control and having taken into account the relevant costs and benefits, the management decided to build up an in-house team to take care of the plantings. Contributed by the growth status of the seedlings, a gain of approximately HK\$2.9 million was recognized as the change in fair value of biological assets less cost to sell. With more land cleared resulting from our logging activities, there will be greater area for the plantation operation. Cash flows generated from logging and wood processing operations will be utilized to support the plantation operation before the production and sales of palm oil. We believe that the Group’s business model with a combination of forestry and plantation businesses can provide the Group with sustainable growth opportunities.

During 2011, the Group recorded sales of approximately HK\$4.1 million from its trading business.

LETTER TO THE SHAREHOLDERS

OUTLOOK

As approved by independent shareholders in July 2011, the Company extended the maturity date of its convertible bonds with outstanding principal of approximately HK\$462 million issued to its shareholder, Merdeka Commodities Limited, by 3 years from 12 August 2011 to 12 August 2014. With such an extension, the management can continue to concentrate on business development and devote resources to support its operations.

The management is actively looking for new opportunities to broaden the sources of revenues and cash inflows of the Group. On 15 November 2011, the Group entered into a memorandum of understanding in relation to the proposed acquisition of 5 million metric tones of tailings located in and near the city of Timika, Papua, Indonesia. On 13 February 2012, a supplemental memorandum of understanding was entered into as additional time is required for the parties to finalize, fine-tune and negotiate further the transaction structure and commercial terms. In addition to agriculture and forestry, there are ample natural resources in Papua, Indonesia. Leveraging on our experience and relationship with government authorities in the region, the Group will continue to consider any suitable business opportunities, taking into account the cash flow requirement and associated business risk.

As to the existing operations, although the contribution from forestry business in 2011 was small relative to its operating costs, the management expects that the revenue and profitability will improve in 2012. Operationally, the Group will focus on maximizing the utilization of its resources in the most efficient manner while keeping a tight control over the cost of operations. We will continue to work on streamlining and refining our operations and increasing the productivity of our workforce and plant and machinery, so as to improve efficiency.

We reported a loss attributable to owners of the Company for 2011 of HK\$67.2 million, representing an increase of 4.5% compared to 2010. The loss is primarily attributable to the imputed interest charge of HK\$35.4 million on the liability component of the convertible bonds and the necessary strategic investment in people and infrastructure, as well as providing the foundation for our future operations.

APPRECIATION

On behalf of the Board, I would like to thank all shareholders for your support and confidence in the Company. I believe that we will deliver long-term benefits to shareholders with improvement in the Group's performance and I look forward to sharing the rewards from our current hard work with you in the near future. I would also like to express my gratitude to our management team and all our staff for their hard work and contribution in the execution of the Group's strategies and operations during the past year. Last but not the least, I wish to thank all customers, suppliers, business partners, bankers, government authorities for their continuous support.

Ma Hang Kon, Louis
Chief Executive Officer

Hong Kong
22 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Highlights on financial results

(HK\$'000, except percentage figures)	Year ended 31 December		Change
	2011	2010	
Revenue	8,891	6,715	+32.4%
Gross profit	795	101	+687.1%
Gross profit margin	8.9%	1.5%	+7.4 percentage points
Operating expenses	19,135	28,888	-33.8%
Administrative expenses	15,862	10,268	+54.5%
EBITDA, excluding share option expenses*	(21,128)	(28,090)	-24.8%
Equity-settled share option expenses	2,880	–	Not applicable
Finance costs	35,431	33,758	+5.0%
Depreciation#	6,363	5,340	+19.2%
Amortisation	3,724	266	+1,300.0%
Loss for the year	(69,526)	(67,454)	+3.1%

* EBITDA represents loss before tax, finance cost, depreciation and amortisation

Approximately HK\$1.6 million was included in cost of sales in 2011 (2010: nil)

Discussion on financial results

The revenue of the Group increased by 32.4% to approximately HK\$8.9 million in 2011 from approximately HK\$6.7 million in 2010. The increase in revenue was mainly attributable to revenue from our forestry business that amounted to HK\$4.8 million. This amount has more than offset the decrease in revenue from our trading business. The increase in revenue in our forestry business also helped to improve our overall gross profit margin to 8.9% in 2011 from 1.5% in 2010.

The operating expenses of the Group decreased by 33.8% to approximately HK\$19.1 million in 2011 from approximately HK\$28.9 million in 2010. The decrease was mainly due to the cost savings in plantation-related operations. The administrative expenses of the Group increased by 54.5% to approximately HK\$15.9 million in 2011 from approximately HK\$10.3 million in 2010. The increase was mainly due to the increase in director emoluments by approximately HK\$4.7 million.

Excluding the effects of share option expenses, finance costs, depreciation and amortisation, the Group recorded a lower loss before tax at HK\$21.1 million in 2011 compared to HK\$28.1 million in 2010. The Company continued to invest in the start up costs and necessary strategic investment in people to lay a better foundation for our forestry and plantation businesses. The management also tightened cost controls in 2011 and streamlined the operations for better efficiency in 2011.

During the year ended 31 December 2011, a total of 107 million share options were granted to eligible participants of the Company's share option scheme. The associated equity-settled share option expenses, which were non-cash in nature, represented the fair value of the share options granted, was approximately HK\$2.9 million in 2011. No share option was granted in 2010.

In July 2011, the Company extended the maturity date of its convertible bonds, with outstanding principal of approximately HK\$462.4 million, from August 2011 to August 2014. Gain on extinguishment of convertible bonds in respect of the liability component, amounted to approximately HK\$132.7 million, was credited to equity in accordance with Hong Kong Financial Reporting Standards. These convertible bonds were zero coupon bonds. Finance costs in 2010 and 2011 solely represented the non-cash imputed interest charge on the liability component of such convertible bonds. Such finance cost increased by 5.0% from approximately HK\$33.8 million in 2010 to approximately HK\$35.4 million in 2011, as the effective imputed annual interest rate increased from about 7.25% to 11.66% upon extension.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31 December 2011, depreciation increased by 19.2% from approximately HK\$5.3 million from 2010 to approximately HK\$6.4 million in 2011, as all production equipment in the sawmill and veneer factories were subject to depreciation upon completion of installation in 2011.

Amortisation represented the amortisation of the Group's forest concessions in Indonesia covering an area of 313,500 hectares. It is charged on a unit of production basis. During the year ended 31 December 2011, the Group was granted wood utilization permit to perform logging covering an area of 1,500 hectares. Accordingly, the amortisation charge increased significantly from approximately HK\$0.3 million in 2010 to approximately HK\$3.7 million in 2011, reflecting higher level of logging activities during the year.

Loss for the year increased by 3.1% to approximately HK\$69.5 million in 2011 from approximately HK\$67.5 million in 2010. The increase was mainly due to the combined effect of increase in equity-settled share option expenses, finance costs, depreciation and amortisation, which were non-cash in nature, net of the decrease in aggregate of other administrative and operating expenses.

Analysis by business segment

(HK\$'000)	Revenue		Profit/(loss) before tax	
	2011	Year ended 31 December 2010	2011	2010
Trading business	4,072	6,715	85	(73)
Forestry business	4,819	–	(61,196)	(60,274)
Plantation business	–	–	1,951	(5,648)
Total	8,891	6,715	(59,160)	(65,995)

Revenue from our trading business decreased by 39.4% from approximately HK\$6.7 million in 2010 to approximately HK\$4.1 million in 2011, as the Group shifted the trading products to more agricultural-related commodities, with higher margin.

Compared to 2010, loss before tax from the forestry business in 2011 remained at a similar level, as the Company continued to invest the start up costs and human resources to develop the business.

Same as 2010, no revenue was recorded for the Group's plantation business in 2011 as our palm tree seedlings were still in early stage. As the seedlings continue to grow, the Group recorded gain of approximately HK\$2.9 million (2010: HK\$4.8 million) as a change in fair value of biological assets less cost to sell. In 2011, in order to maintain better and closer control, the Group deployed its own team, instead of hiring a sub-contractor to take care of the seedlings. Accordingly, the Group recorded profit before tax from this business of approximately HK\$2.0 million in 2011 compared to a loss before tax of approximately HK\$5.6 million in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis by geographical segment

(HK\$'000, except percentage figures)	Year ended 31 December			
	2011 Revenue	Proportion	2010 Revenue	Proportion
Hong Kong	8,891	100%	–	–
Mainland China	–	–	6,715	100%
Total	8,891	100%	6,715	100%

All the Group's revenue was derived from Hong Kong in 2011 whereas all revenue was derived from mainland China in 2010.

Highlights on financial position

(HK\$'000, except percentage figures)	As at 31 December		
	2011	2010	Change
Property, plant and equipment	39,424	37,101	+6.3%
Forest concessions	829,811	833,535	-0.4%
Biological assets	9,579	6,635	+44.4%
Trade receivables	2,878	–	n/a
Inventories	1,914	–	n/a
Prepayment, deposits and other receivable	2,314	5,951	-61.1%
Cash and cash equivalents	35,681	68,569	-48.0%
Other payables and accruals	1,524	2,398	-36.4%
Convertible bonds – liability component	304,111	485,652	-37.4%
Non-controlling interests	35,372	37,741	-6.3%
Shareholders' funds	580,594	426,000	+36.3%

Discussion on financial position

Property, plant and equipment increased to approximately HK\$39.4 million as at 31 December 2011 from approximately HK\$37.1 million as at 31 December 2010. The increase was mainly due to additions of approximately HK\$9.5 million of buildings and factories, machineries and equipment, net of depreciation of approximately HK\$7.2 million during 2011.

Forest concessions decreased to approximately HK\$829.8 million as at 31 December 2011 from approximately HK\$833.5 million as at 31 December 2010. The decrease was due to amortisation charged during 2011.

Biological assets increased to approximately HK\$9.6 million as at 31 December 2011 from approximately HK\$6.6 million as at 31 December 2010, mainly due to the change in fair value of palm seedlings with reference to the growth status.

Trade receivables amounted to HK\$2.9 million as at 31 December 2011 (2010: nil), related to our trading business.

Inventories amounted to HK\$1.9 million as at 31 December 2011 (2010: nil), related to the cost of logs resulting from our logging activities in 2011.

Prepayment, deposits and other receivable decreased to approximately HK\$2.3 million as at 31 December 2011 from approximately HK\$6.0 million as at 31 December 2010, mainly due to prepayments related to acquisition of machineries being transferred to property, plant and equipment during 2011.

Cash and cash equivalents decreased by 48.0% to approximately HK\$35.7 million as at 31 December 2011 from approximately HK\$68.6 million as at 31 December 2010. The decrease was mainly caused by the net cash outflow to finance operational expenses and acquisition of machineries.

MANAGEMENT DISCUSSION AND ANALYSIS

Other payables and accruals decreased to approximately HK\$1.5 million as at 31 December 2011 from approximately HK\$2.4 million as at 31 December 2010. The decrease was mainly due to the settlement of other payables of approximately HK\$1.0 million during 2011.

The liability component of the convertible bonds decreased by 37.4% from approximately HK\$485.6 million as at 31 December 2010 to approximately HK\$304.1 million as at 31 December 2011. The decrease was mainly due to the partial conversion during 2011 and gain on extinguishment of convertible bonds in respect of its liability component of approximately HK\$132.7 million upon extension of the maturity date from August 2011 to August 2014 in the year. The outstanding principal amounted to approximately HK\$404.9 million and HK\$504.9 million respectively as at 31 December 2011 and 2010.

Non-controlling interests decreased to approximately HK\$35.4 million as at 31 December 2011 from approximately HK\$37.7 million as at 31 December 2010. The decrease was mainly due to the sharing of loss in our non-wholly owned Indonesian subsidiaries by their non-controlling shareholders for 2011.

The Group's shareholders' funds increased to approximately HK\$580.6 million as at 31 December 2011 from approximately HK\$426.0 million as at 31 December 2010. The increase was mainly due to credit to the equity for gain on extinguishment of convertible bonds in respect of its liability component upon extension of its maturity date, amounted to approximately HK\$132.7 million, in accordance with Hong Kong Financial Reporting Standards.

Capital structure and gearing ratio

	As at 31 December			
	2011 HK\$'000	Proportion	2010 HK\$'000	Proportion
Total borrowings				
– Convertible bonds (liability component)	304,111	34.4%	485,652	53.3%
Equity	580,594	65.6%	426,000	46.7%
Total capital employed	884,705	100.0%	911,652	100.0%

During the year ended 31 December 2011, convertible bonds with an aggregate principal amount of HK\$100 million were converted into 1 billion shares of the Company with par value of HK\$0.01 each. In 2011, gain on extinguishment of convertible bonds in respect of its liability component of approximately HK\$132.7 million upon extension of the maturity date from August 2011 to August 2014 was credited to the equity in accordance with Hong Kong Financial Reporting Standards. The outstanding principal amounted to approximately HK\$404.9 million as at 31 December 2011 (2010: HK\$504.9 million).

The Group's gearing ratio was approximately 34.4% as at 31 December 2011 (2010: 53.3%). The decrease was mainly due to the conversion of convertible bonds and gain on extinguishment of convertible bonds upon extension of its maturity date mentioned in the aforesaid paragraph.

MANAGEMENT DISCUSSION AND ANALYSIS

Other than the convertible bonds, the Group had no other borrowings as at 31 December 2010 and 2011.

Liquidity and financial resources

(HK\$'000)	As at 31 December	
	2011	2010
Current assets	42,787	74,520
Current liabilities	1,524	488,050
Current ratio	2,807.5%	15.3%

The current ratio of the Group as at 31 December 2011 was 2,807.5% (2010: 15.3%). The significant increase in current ratio was mainly due to the reclassification of the liability component of the convertible bonds from current liabilities to non-current liabilities, upon extension of its maturity date from August 2011 to August 2014 during 2011. The liability component of the convertible bonds as at 31 December 2010 and 2011 were approximately HK\$485.6 million and approximately HK\$304.1 million respectively.

As at 31 December 2011, the Group's cash and cash equivalents amounted to approximately HK\$35.7 million (2010: HK\$68.6 million). No cash and cash equivalents of the Group were pledged for general banking facilities as at 31 December 2010 and 2011. As at 31 December 2011, about 87.1% (2010: 91.5%) of the Group's cash and cash equivalents were deposits placed with licensed banks in Hong Kong, among which about 88.3% (2010: 100.0%) were denominated in Hong Kong dollars. The balance of cash and cash equivalents provides the funds to support the working capital and capital expenditure needs of the Group.

Foreign currency exposure

The Group's reporting currency is Hong Kong dollar. During the year ended 31 December 2010 and 2011, most of the Group's transactions were denominated in Hong Kong dollars ("HK\$"), Indonesian Rupiah ("Rp") and United States dollars ("US\$"), to which HK\$ is pegged. The Group has exposure to the risk of exchange rate fluctuations for Rp on account of its cost of forestry and plantation operations in Indonesia. The Group has not formally employed any hedging instruments or derivative products considering the relevant costs and benefits. However, the Group will continue to monitor closely the exchange rate risk.

Contingent liabilities

As at 31 December 2010, the Group did not have any significant contingent liabilities. Details of contingent liabilities are disclose in Note 31 of the notes to the financial statements.

Acquisition and disposal of subsidiaries and affiliated companies

The Group did not acquire or dispose of any material subsidiaries and associates during the year ended 31 December 2011. Details of acquisition and disposal of subsidiaries during the year ended 31 December 2010 are disclosed in Note 9 of the notes to the financial statements.

Significant investments

The Group did not acquire or hold any significant investment during the year ended 31 December 2010 and 2011.

Pledge of assets

As at 31 December 2010 and 2011, the Group did not have any pledged deposits and assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital commitments

As at 31 December 2010 and 2011, the Group did not have any significant capital commitments.

Employees and remuneration policy

As at 31 December 2011, the Group employed 165 staff (2010: 157). The Group's remuneration policy is built on principle of equality, motivating, performance-oriented and market-competitiveness. Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, other staff benefits included provident fund contributions, medical insurance coverage and performance related bonuses. Share options may also be granted to eligible employees and persons of the Group. As at 31 December 2011, there were outstanding share options of approximately 307.0 million (2010: 258.5 million).

Event after the reporting period

On 6 March 2012, the Company's existing share option scheme expired. All the outstanding share options thereunder were lapsed because of the expiry of the option period.

On 22 March 2012, the Company established the nomination committee to comply with the latest amended GEM Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. MA Hang Kon, Louis, aged 49, joined the Group in 2008, is an executive director, CEO, member of the remuneration committee, compliance officer, authorized representative and agent for service of process in Hong Kong of the Company and a director of the relevant subsidiaries of the Company.

Mr. Ma is primarily responsible for the corporate planning, overall strategic direction of the Group and taking a leading role in managing and overseeing the day-to-day operations of the businesses of the Group. He is also responsible for managing the finance and accounting, compliance and company secretarial functions of the Group. Mr. Ma has over 25 years of working experience, mainly in the petrochemical and electronics industries in the United States and in the Asia Pacific region. He is experienced in starting up operations including building an infrastructure of manufacturing facilities in the Asia Pacific, in leading mergers and acquisitions, and in rapidly growing business in new geographic locations. He has also acquired management experience in the forestry business of the Group in Indonesia during the period of his former employment with the Group. Mr. Ma is a member of each of The American Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Secretaries and Administrators. He graduated from the Kellogg School of Business, Northwestern University in the United States and the Hong Kong Polytechnic (the predecessor of The Hong Kong Polytechnic University).

Mr. LAI Wing Hung, aged 49, is currently an executive director of the Company and a director of certain subsidiaries of the Company, a director and controlling shareholder of MCL and also a substantial shareholder of the Company. He is primarily responsible for the overall management of the Group and taking an executive role in managing the Group's forestry business, management of investment and corporate finance. Mr. Lai has 20 years of experience with CITIC (Hong Kong) Holdings Limited in the management of the investment and bond instruments. His last position in CITIC (Hong Kong) Holdings Limited was Deputy General Manager, Fixed Income. He has been involved in the affairs of the forestry business of the Group in Indonesia since its acquisition. Mr. Lai graduated from The Chinese University of Hong Kong with a Bachelor's degree in Business Administration.

Mr. WONG Shui Lung (王水龍), aged 70, graduated from the Mechanical and Electrical Engineering Faculty of the Qinghua University of the People's Republic of China. Mr. Wong has more than 10 years of experience in international gold trading. He has served as the Managing Director of Beijing Jinyu Zhongjin Gold (H.K.) Company Limited (北京金域中金黃金(香港)有限公司), since 2005. Commencing from September 2010, he is the Deputy General Manager of Beijing Hua Min Chang Qing Technology Development Limited (北京華民常青科技發展有限公司).

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. YEH Shuen Ji (葉選基), aged 72, is the Chairman of the Company with effect from 27 January 2011. He graduated from Beijing Foreign Languages Institute (presently known as Beijing Foreign Studies University), and has more than 32 years of experience in finance and corporate development. He was the General Manager (Hong Kong Branch) of CITIC International Investment Company (中信國際投資公司), the chairman of Guo Ye Holdings Company Limited (國葉集團有限公司) and Guo Ye Enterprises Limited (國葉企業有限公司), the principal activities of which are investment consultancy in electronic communications and property in the PRC. During the period from 1997 to 2005, he was also an executive director of SEEC Media Group Limited, securities of which are listed on the Stock Exchange.

Commencing from 2006, Mr. Yeh is the Honorary Chairman of the Hong Kong Energy and Minerals United Associations.

Mr. BAI Baohua (白葆華), aged 71, has 45 years of experience in metallurgy. He worked as an engineer, a manager and then the general manager of China Metallurgical Products' Import & Export Company (中國冶金進出口公司), a company primarily involved in trading of metals. He was also appointed as the general manager of China International Steel Investment Company (中國國際鋼鐵投資公司), a company primarily involved in promotion of foreign investment in the steel industry in the PRC. In addition, he was the general manager, the vice chairman and the legal representative of China Iron and Steel Industry and Trade Group Corporation, a company primarily involved in production and trading of steel. He graduated from Metal Pressure Processing Department at University of Science & Technology Beijing (originally Beijing Iron and Steel College) in 1965.

Mr. Bai is an INED, member of remuneration and audit committees of China Nickel Resources Holdings Co., Ltd., securities of which are listed on the Stock Exchange.

He is also an independent director, chairman of the nominating and remuneration committees and a member of the audit committee of Delong Holdings Limited, securities of which are listed on the Singapore Exchange Securities Trading Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAM Kin Kau, Mark, aged 57, has served as an INED of the Company since April 2006 and is a member of both the Audit Committee and the Remuneration Committee. He is a member of the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Accountants in England and Wales and The Institute of Chartered Secretaries and Administrators. He has been a practising accountant for over 25 years and is a director of various private companies. He is also an INED of Neo Telemedia Limited (formerly known as BIG Media Group Limited), a company listed on the GEM. Mr. Lam was an INED of Haier Electronics Group Co., Ltd., a company listed on the Main Board of the Stock Exchange until his resignation on 21 June 2007.

Mr. FUNG Hoi Wing, Henry, aged 56, has served as an INED of the Company since April 2006 and is a member of both the Audit Committee and the Remuneration Committee. He is a Solicitor of Messrs. Fung, Wong, Ng & Lam, Solicitors and Notaries of Hong Kong. He graduated from the University of Hong Kong in 1976 with a Bachelor's degree in Social Sciences. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1981. In addition, he is a Notary Public and a China-Appointed Attesting Officer. He has also served as an INED of Global Energy Resources International Group Limited, a company listed on the GEM since 12 January 2010. Mr. Fung was also an INED of Haier Electronics Group Co., Ltd., a company listed on the Main Board of the Stock Exchange until his resignation on 21 June 2007.

Mr. LAU Ho Wai, Lucas, aged 49, has served as an INED of the Company since April 2006 and is a member of both the Audit Committee and the Remuneration Committee. He is a fellow of The Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors. He is also a Registered Professional Surveyor and a practicing chartered surveyor in Hong Kong. He has a Bachelor's degree in Land Economy, a Master's degree in Urban Design, a Bachelor's degree in Laws, a Master's degree in Laws (International Business Law) and a Master's degree of Science in Applied Accounting and Finance and has over 20 years of professional experience in the real estate and finance fields.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Nolfo Banquirigo ANUDDIN, aged 53, joined the Group in August 2008, currently holds the position of Field Operations Manager of an operating subsidiary in Indonesia. He is primarily responsible for the day-to-day operations in the field covering forestry production, road construction, planning, and mechanical and equipment maintenance. Mr. Anuddin graduated from the Foundation University in the Philippines with a forestry degree. He has been in the forestry business for over 31 years in various countries including Malaysia, Suriname, Guyana (South America), Amazon, Brazil and now in Indonesia.

Professor GONG Yao Qian, aged 76, joined the Group in September 2008, currently holds the position of Chief Consultant, Forestry and Wood Processing. He is responsible for the master planning of the forestry and wood processing operations. Professor Gong graduated from the Nanjing Forestry University and taught in the same university for over 30 years. He represented the Ministry of Forestry of the PRC and various corporations in the PRC for domestic and international forestry projects covering countries including Fiji, Guyana, East Timor, Gabon, Bolivia, Japan and Indonesia.

Mr. LI Dong Fang, aged 37, joined the Group in March 2009, currently holds the position of Factory Manager of the Group's operations in Indonesia. Mr. Li is primarily responsible for the day-to-day maintenance and operation of machinery and equipment of the Group's downstream operations in Indonesia and he will also be responsible for developing the Group's wood processing operation in Indonesia. Prior to joining the Group, he held the position of the technical factory manager of an Indonesian company and has extensive experience in overseeing the maintenance and operation of machinery and equipment in factory operation.

Mr. LAI Yau Hong, Thomson, aged 49, joined the Group in December 2010, is the Company Secretary of the Company. Mr. Lai has over 20 years of experience in company secretarial duties as well as corporate governance and management fields and has taken up senior management positions in a number of multinational conglomerates and companies listed on the Stock Exchange. He is an associate member of the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has always recognised the importance of the transparency and accountability to shareholders of the Company (the "Shareholders"). It is the belief of the Board that the Shareholders can maximise their benefits from good corporate governance. The Company is committed to maintaining and ensuring high standards of corporate governance in the interests of the Shareholders. Throughout the year ended 31 December 2011, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions under the Code on Corporate Governance Practices set out in Appendix 15 to the GEM Listing Rules, except for the following deviations from the code provisions of the Code:

Code Provision A.4.1

The Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election.

The two non-executive directors of the Company are appointed for a terms of two years, but none of the existing INEDs of the Company is appointed for a specific term. However, all non-executive directors, including INEDs, of the Company are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

Code Provision A.4.2

The Code Provision A.4.2 provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the articles of association of the Company, any director appointed to fill a casual vacancy shall hold office only until the next following AGM and shall then be eligible for re-election.

The Board considers that such a deviation is not material as casual vacancy seldom happens and duration between appointment to fill casual vacancy and the immediate following AGM is less than one year and is considered to be short.

Pursuant to the articles of association of the Company, the Chairman and the managing director of the Company shall not be subject to retirement by rotation or also not be taken into account in determining the number of directors to retire in each year. The Board considers that the continuity of the Chairman and his leadership will be essential for the stability of the key management of the Board. On the other hand, the Board will ensure that the directors of the Company other than the Chairman will rotate at least once every three years in order to comply with the Code Provision A.4.2.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has not adopted a code of conduct nor established written guidelines regarding the securities transactions by the directors and relevant employees of the Company but has applied the principles of the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all directors of the Company and the Company is not aware of any non-compliance with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2011.

CORPORATE GOVERNANCE REPORT

THE BOARD

The Board is charged with the responsibility for the promotion of the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith and in the best interests of the Company.

Matters reserved for the Board's decision include those relating to:

- the strategic direction of the Group;
- the objectives of the Group;
- monitoring the performance of the management of the Group;
- ensuring prudent and effective control measures are in place;
- material bank facilities arrangements;
- material acquisitions and disposals of assets and significant investments;
- material transactions with connected persons;
- material corporate finance transactions including placing or sale of shares or convertible bonds, corporate restructuring, take-over, including approval of the announcements and the circulars;
- reviewing and approving quarterly results, half-yearly results and annual financial statements, declaration of dividends;
- appointment, re-appointment of auditors and determination of their remuneration; and
- reviewing and determination of the terms and remuneration of the Directors.

The management of the Group was delegated the authority and responsibility by the Board for managing the businesses of the Group, with division heads responsible for different aspects of the business. The Board meets at least four times each year and meets as and when required. Appropriate and sufficient information including notices were provided to the Board's members in a timely manner. During the year ended 31 December 2011, the Board held 8 meetings. The attendance of the Directors at the Board's meetings (either in person or by phone) is set out as follows:

Name of the Directors	Number of attendance
Ma Hang Kon, Louis	8/8
Lai Wing Hung	8/8
Wong Shui Lung	3/6*
Yeh Shuen Ji	1/6*
Bai Baohua	6/6*
Lam Kin Kau, Mark	8/8
Fung Hoi Wing, Henry	7/8
Lau Ho Wai, Lucas	8/8

* Mr. Wong Shui Lung, Mr. Yeh Shuen Ji and Mr. Bai Baohua were appointed directors of the Company on 27 January 2011 when two meetings had been held.

CORPORATE GOVERNANCE REPORT

The company secretary of the Company is responsible for taking minutes of the Board's meetings and all Board's minutes are open for inspection by the Directors upon reasonable notice. During the year ended 31 December 2011, the company secretary has taken over 15 hours of relevant professional training.

The Directors are enabled, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

Appropriate insurance cover has been arranged in respect of the legal action against the Directors and the management of the Group. The Board considers that the Group has sufficient and appropriate liability insurance to cover the Directors and the management of the Group against any legal liability arising from their performance of duties.

BOARD'S COMPOSITION

As at the date of this Annual Report, the Board comprises three executive directors, namely Mr. Ma Hang Kon, Louis (also acting as the CEO), Mr. Lai Wing Hung and Mr. Wong Shui Lung, two non-executive directors, namely Mr. Yeh Shuen Ji (also acting as the Chairman) and Mr. Bai Baohua and three INEDs, namely Mr. Lam Kin Kau, Mark, Mr. Fung Hoi Wing, Henry and Mr. Lau Ho Wai, Lucas. The Board has maintained a balance of skills and experience appropriate of the requirements, promotion and development of the businesses of the Group. Its composition represents a mixture of management, technical, marketing, procurement, legal, accounting and finance which is relevant in managing the businesses in which the Group is engaged.

The Company has received annual confirmation of independence from the three INEDs of the Company in accordance with Rule 5.09 of the GEM Listing Rules. The Board has assessed their independence and concluded that all INEDs of the Company are independent within the definition of the GEM Listing Rules.

The Company has complied with Rules 5.05(1), 5.05A and 5.05(2) of the GEM Listing Rules relating to the appointment of a sufficient number of the INEDs and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise throughout the year ended 31 December 2011. The Board currently comprises three INEDs, one of whom has accounting and financial expertise and brings strong independent judgement, knowledge and experience to the Board.

The Board's members have no financial, business, family or other material/relevant relationships with each other. Such balanced composition of the Board is formed to ensure strong independence exists across the Board and has met the recommended best practice under the Code for the Board to have at least one-third in number of its members comprising the INEDs. The biographies of the Directors are set out in the section headed "Directors and Senior Management" in this Annual Report, which demonstrate a diversity of skills, expertise, experience and qualifications.

CORPORATE GOVERNANCE REPORT

THE CHAIRMAN AND THE CEO

Presently, Mr. Yeh Shuen Ji assumes the role of the Chairman of the Company whilst Mr. Ma Hang Kon, Louis assumes the role of the CEO of the Company. By segregating the roles of the Chairman and the CEO as a balance of power and authority, the Company complies with the Code and will take necessary positive steps to ensure the strict continual compliance of the Code in the long run for improving the corporate governance.

The Chairman of the Company is responsible for the management of the board and for the performance of the important role in the provision of leadership for the board. The chairman should take responsibilities for (i) ensuring that the board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the board in a timely manner; (ii) drawing up and approving the agenda for each board meeting taking into account; and (iii) ensuring that good corporate governance practices and procedures are established.

RE-ELECTION AND RETIREMENT OF THE DIRECTORS

The articles of association of the Company provide that (i) each Director (except the Chairman and the managing director) is required to retire by rotation and that one-third (or the number nearest to but not greater than one-third) of the Directors shall retire from office by rotation and be eligible for re-election at each AGM of the Company; and (ii) any Director appointed by the Board, either to fill a casual vacancy on or as an addition to the existing Board, will hold office only until the next following AGM of the Company and shall then be eligible for re-election at that meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the INEDs of the Company has filed a written confirmation to the Company confirming his independence pursuant to Rule 5.09 of the GEM Listing Rules and has undertaken to inform the Stock Exchange and the Company as soon as practicable if there is any subsequent change in circumstances which may affect his independence. As at the date of this Annual Report, the Board still considers the INEDs of the Company to be independent. The INEDs of the Company are not appointed for any specific terms, but they are subject to retirement by rotation and re-election at the AGM of the Company in accordance with the articles of association of the Company.

THE COMPANY SECRETARY

The Company has appointed and employed, on a full time basis, Mr. Lai Yau Hong, Thomson as the company secretary. He is an associate member of the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and is an individual who, by virtue of his professional qualifications and relevant experience, is, in the opinion of the Board, capable of discharging the functions of company secretary. During the year ended 31 December 2011, the company secretary has taken over 15 hours of relevant professional training.

The company secretary is responsible not just for taking minutes of the Board's meetings but also for supporting the board by ensuring good information flow within the Board and that board policy and procedures are followed and for advising the Board through the Chairman and the CEO on governance matters and also for facilitating induction and professional development of directors.

The company secretary reports to the Chairman and the CEO while all directors have access to the advice and services of him to ensure that board procedures, and all applicable law, rules and regulations, are followed.

A physical board meeting is required to be held to discuss and approve any change in the company secretary.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established two committees, namely the Remuneration Committee and the Audit Committee, with clearly defined written terms of reference. The main roles and responsibilities of these two committees, including all authorities delegated to them by the Board, as set out in the terms of reference, are published on the Company's website at www.merdeka.com.hk. The different committees' independent views and recommendations not only ensure proper control of the Group but also the continual achievement of the high corporate governance standards expected of a listed company. The chairman of each committee reports the outcome of the committee's meetings to the Board for further discussion and approval.

Remuneration of the Directors

Pursuant to the requirements of the GEM Listing Rules, the Company has established the Remuneration Committee in 2005 with specific written terms of reference in line with the code provisions under the Code. The Remuneration Committee is mainly responsible for (i) making recommendations to the Board on the policy and structure for the remuneration of the directors and the senior management of the Group; (ii) reviewing the remuneration package including the performance-based bonus and incentive rewards for the executive Directors and the senior management of the Group; and (iii) reviewing and making recommendations to the Board the compensation, if any, payable to the executive directors and senior management in connection with any loss or termination of their office or appointment.

The Remuneration Committee for the year ended 31 December 2011 consisted of five members comprising three INEDs, namely Mr. Lam Kin Kau, Mark, Mr. Fung Hoi Wing, Henry and Mr. Lau Ho Wai, Lucas, and two executive directors, namely Mr. Ma Hang Kon, Louis and Mr. Lai Wing Hung. The chairman of the Remuneration Committee is elected by the members who are present at the meeting.

During the year ended 31 December 2011, the Remuneration Committee held two meetings at which all five members of the Remuneration Committee attended. At one of such meetings, the current framework, policies and structure for the remuneration of the directors and the senior management of the Group was reviewed by the members of the Remuneration Committee who reported to the Board of their reviews with recommendations. The Remuneration Committee also reviewed the specific remuneration packages including the terms of employment, incentive rewards and performance-based bonus of the executive Directors and the senior management of the Group and the fees payable to the INEDs of the Company.

The primary objective of the Group's remuneration policy is to retain and motivate the executive Directors and the senior management of the Group by linking their rewards to the corporate and individual performance, job complexity and responsibilities, so that the interests of the executive Directors are aligned with those of the Shareholders. No Director can, however, approve his/her own remuneration.

In order to attract, retain and motivate the executives and the employees serving for the Group, the Company has adopted the Share Option Scheme in 2002. The Share Option Scheme enables the eligible participants to obtain an ownership interest in the Company by payment of the exercise price with reference to the market price of the Shares at the time of grant and thus to reward to the participants who contribute to the success of the Group's operations.

Details of the amount of the Directors' emoluments are set out in note 11 to the financial statements in this Annual Report and details of the Share Option Scheme adopted by the Company on 20 February 2002 are set out in the section headed "Report of the Directors" in this Annual Report.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Company has established the Audit Committee in 2001 with specific written terms of reference formulated in accordance with the requirements of the GEM Listing Rules. The primary duties of the Audit Committee are to ensure the objectivity and credibility of the Company's financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

The Audit Committee consisted of three members comprising three INEDs, namely Mr. Lam Kin Kau, Mark, Mr. Fung Hoi Wing, Henry and Mr. Lau Ho Wai, Lucas throughout the year ended 31 December 2011, one of whom is a qualified accountant and has extensive experience in accounting and financial matters. The chairman of the Audit Committee is elected by the members who are present at the meeting. All members of the Audit Committee hold the relevant industry or legal, accounting and financial experience necessary to give advice on the Board's strategies and other related matters. All members of the Audit Committee have complete and unrestricted access to the external auditors and all employees of the Company.

The Audit Committee is mainly responsible for (i) reviewing the Company's quarterly results, half-yearly results and annual financial statements and making recommendations as to the approval of the Company's quarterly results, half-yearly results and annual financial statements by the Board; (ii) reviewing and making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and the terms of engagement including the remuneration of the external auditors; (iii) discussing with the external auditors the nature and scope of the audit; (iv) monitoring and assessing the independence and objectivity of the external auditors and the effectiveness of the audit process in accordance with applicable standards; (v) reviewing and monitoring financial reporting and the reporting judgement contained in them; and (vi) reviewing financial and internal control (including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget), accounting policies and practices with the management of the Group, and internal and external auditors of the Company.

During the year ended 31 December 2011, the Audit Committee held 4 meetings. The attendance of the members of the Audit Committee at the Audit Committee's meetings (either in person or by phone) is set out as follows:

Name of the members of the Audit Committee	Number of attendance
Lam Kin Kau, Mark	4/4
Fung Hoi Wing, Henry	4/4
Lau Ho Wai, Lucas	4/4

For the year ended 31 December 2011, the members of the Audit Committee have met with the Group's external auditors to discuss the annual audit plan. The meeting of the Audit Committee was attended by the members of the Audit Committee and the external auditors of the Company. The external auditors also made presentations to the Audit Committee on the findings on key issues addressed in the annual audit.

For the year ended 31 December 2011, the Audit Committee reviewed the accounting principles and practices adopted by the Company and discussed with the management of the Group the financial reporting matters. The Audit Committee also reviewed the internal control and risk management system of the Group with the internal auditors. The Audit Committee also reviewed the quarterly results for the period ended 31 March 2011, 30 September 2011, the half-yearly results for the period ended 30 June 2011 and the annual results for year ended 31 December 2011 of the Company, and confirmed that the preparation of such complied with the applicable accounting principles and practices adopted by the Company, the requirements of the Stock Exchange and adequate disclosures has been made, before announcement of these results.

The Audit Committee recommended to the Board to review the re-appointment of Messrs. Crowe Horwath (HK) CPA Limited, who was re-appointed during the AGM held for the year ended 31 December 2011, as the Company's external auditors subject to the Shareholders' approval at the forthcoming AGM of the Company.

CORPORATE GOVERNANCE REPORT

NOMINATION OF THE DIRECTORS

The Company has not set up the nomination committee, the establishment of which is, during the year ended 31 December 2011, only a recommended best practice of the Code.

The Board is empowered under the articles of association of the Company to appoint any person as a Director either to fill a casual vacancy on or as an additional member to the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience relevant to the Company's businesses. It is believed that the members of the Board would collectively have the required professional knowledge and skills in discharging the Board's responsibility in identifying, recruiting and evaluating new nominees to the Board and the assessment of qualifications of nominated candidates for directorship.

During the year ended 31 December 2011, three more directors, namely, Mr. Yeh Shuen Ji, Mr. Bai Baohua and Mr. Wong Shui Lung were appointed on 27 January 2011.

After the financial year end, to comply with the latest amended GEM Listing Rules, on 22 March 2012, the Company established the nomination committee (the "Nomination Committee") with specific written terms of reference in line with the code provisions under the Code.

The responsibilities and authorities of the Nomination Committee include such responsibilities and authorities set out in the relevant code provisions of the Code and its duties include: (i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iii) to assess the independence of INEDs; and (iv) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman of the Board and the chief executive.

The Nomination Committee will at all times, have a minimum of three members, a majority of which shall be INEDs and presently consists of five members comprising three INEDs, namely Mr. Lam Kin Kau, Mark, Mr. Fung Hoi Wing, Henry and Mr. Lau Ho Wai, Lucas, and two executive directors, namely Mr. Ma Hang Kon, Louis and Mr. Lai Wing Hung. The chairman of the Nomination Committee is elected by the members who are present at the meeting.

The Committee will meet as and when required to discharge its responsibilities, but not less than once a year.

AUDITORS' REMUNERATION

During the year ended 31 December 2011, the remuneration paid to the external auditors of the Group, Crowe Horwath, is set out as follows:

Services rendered	Fees paid/payable HK\$'000
Audit services	761

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

The statement of the external auditors of the Company, Messrs. Crowe Horwath (HK) CPA Limited, with regard to their reporting responsibilities on the Company's financial statements is set out in the section headed "Independent Auditors' Report" in this Annual Report.

CORPORATE GOVERNANCE REPORT

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to the events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Board therefore continues to adopt the going concern approach in preparing the accounts.

INTERNAL CONTROL AND INTERNAL AUDIT

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control system and reviewing their effectiveness. The Group's internal control system has been designed for safeguarding assets, maintaining proper accounting records and ensuring reliability of the financial information. Through the Company's internal audit team, the Board has conducted a review of the effectiveness of the internal control system of the Group which covers all material controls, including operational, financial and compliance controls and risk management functions.

The internal audit team of the Company reviews the major operational, financial and compliance controls and risk management functions of the Group on a continuing basis and aims to cover all major operations of the Group on a rotational basis. The internal audit team of the Company presents their internal audit plan annually to the CEO for approval and they also discuss and agree their audit plan with the Audit Committee at the Audit Committee's meeting.

REPORT OF THE DIRECTORS

The directors of the Company present their report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The subsidiaries are engaged in the forestry business, plantation business and trading business. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 89.

The directors do not recommend payment of any dividend for the year (2010: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial periods/years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 90. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the year, together with the reasons therefor, are set out in notes 28, 29 and 27 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law 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 LISTED SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2011.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK\$500,529,000 (2010: HK\$287,103,000). This included the Company's share premium account amounting to HK\$555,588,000 (2010: HK\$463,568,000) which is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers, respectively, during the financial year is as follows:

	Percentage of the Group's total sales	
	2011	2010
Largest customer	78%	100%
Five largest customers	100%	100%

	Percentage of the Group's total purchase	
	2011	2010
Largest supplier	100%	45%
Five largest suppliers	100%	87%

None of the directors of the Company or any of their associates or any shareholders of the Company (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2011 and up to the date of this Annual Report were as follows:

Executive Directors:

Ma Hang Kon, Louis
Lai Wing Hung
Wong Shui Lung (Appointed on 27 January 2011)

Non-executive Directors:

Yeh Shuen Ji (Appointed on 27 January 2011)
Bai Baohua (Appointed on 27 January 2011)

Independent non-executive Directors:

Lam Kin Kau, Mark
Fung Hoi Wing, Henry
Lau Ho Wai, Lucas

In accordance with article 87 of the Company's articles of association, Mr. Fung Hoi Wing, Henry and Mr. Lau Ho Wai, Lucas, both being the longest in office since their last re-election in the year 2009, and Mr. Ma Hang Kon, Louis have to retire at the forthcoming AGM of the Company and being eligible, they offer themselves for re-election at the forthcoming AGM of the Company.

INEDs of the Company are not appointed for any specific terms. According to the articles of association of the Company, all Directors (except the Chairman and the managing director) are subject to retirement by rotation and re-election at the annual general meeting of the Company.

The Company has received from each of the INEDs of the Company an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and, as at the date of this Annual Report, still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 13 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of the INEDs was not appointed for any specified length of service with the Company but is subject to retirement by rotation in accordance with the Company's articles of association.

Each of the non-executive Directors has entered into an appointment letter with the Company for a term of two years.

The three executive Directors, namely Mr. Ma Hang Kon, Louis, Mr. Lai Wing Hung and Mr. Wong Shui Lung have each entered into a two-year service contract with the Company commencing from 23 November 2010 (both for Mr. Ma Hang Kon, Louis and Mr. Lai Wing Hung) and 27 January 2011 (for Mr. Wong Shui Lung) respectively.

No Director had a service contract with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2011.

SHARE OPTION SCHEME

The Share Option Scheme of the Company was effective on 7 March 2002. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. During the year ended 31 December 2011, a total of 50,500,000 share options were exercised resulting in the issue of an aggregate of 50,500,000 shares of HK\$0.01 each to the respective option holders on 5 August 2011. Furthermore, a total of 8,000,000 share options held by an option holder were lapsed on 13 August 2011.

As at 31 December 2011, excluding the March Grant (as defined below), there were 307,000,000 share options outstanding under the Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 307,000,000, which represents approximately 4.81% and 4.52% of the total issued share capital of the Company as at 31 December 2011 and the date of this report, respectively. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 307,000,000 additional ordinary shares of the Company, additional share capital of HK\$3,070,000 and share premium of HK\$44,506,000 (before the share issue expenses).

Details of the movements of the share options under the Share Option Scheme during the year were as follows:

Name or category of the participants	Number of share options				Outstanding as at 31 December 2011	Date of grant of the share options	Exercise period of the share options	Exercise price of the share options (Note 1) HK\$ per share	Price of the shares before the date of grant (Note 2) HK\$ per share
	Outstanding as at 1 January 2011	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year					
Executive directors									
Ma Hang Kon, Louis	–	40,000,000	–	–	40,000,000	24/1/2011	24/10/2011– 6/3/2012	0.078	0.076
Wong Shui Lung (Note 3)	–	20,000,000	–	–	20,000,000	6/4/2011	24/10/2011– 6/3/2012	0.143	0.127
	–	60,000,000	–	–	60,000,000				
Non-executive directors									
Yeh Shuen Ji (Note 3)	–	20,000,000	–	–	20,000,000	6/4/2011	24/10/2011– 6/3/2012	0.143	0.127
Bai Baohua (Note 3)	–	20,000,000	–	–	20,000,000	6/4/2011	24/10/2011– 6/3/2012	0.143	0.127
	–	40,000,000	–	–	40,000,000				

REPORT OF THE DIRECTORS

Name or category of the participants	Number of share options				Outstanding as at 31 December 2011	Date of grant of the share options	Exercise period of the share options	Exercise price of the share options (Note 1) HK\$ per share	Price of the shares before the date of grant (Note 2) HK\$ per share
	Outstanding as at 1 January 2011	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year					
Independent non-executive directors									
Fung Hoi Wing, Henry	3,500,000	–	–	–	3,500,000	7/7/2009	11/8/2009– 6/3/2012	0.160	0.157
Lau Ho Wai, Lucas	3,500,000	–	–	–	3,500,000	7/7/2009	11/8/2009– 6/3/2012	0.160	0.157
Lam Kin Kau, Mark	3,500,000	–	–	–	3,500,000	7/7/2009	11/8/2009– 6/3/2012	0.160	0.157
	10,500,000	–	–	–	10,500,000				
Employees and other eligible participants									
Employees (Note 3)	–	3,000,000	–	–	3,000,000	24/1/2011	24/10/2011– 6/3/2012	0.078	0.076
	–	4,000,000	–	–	4,000,000	6/4/2011	24/10/2011– 6/3/2012	0.143	0.127
Other eligible participants	50,500,000	–	50,500,000	–	–	5/7/2006	14/8/2006– 13/8/2011	0.038	0.035
	4,000,000	–	–	4,000,000	–	14/11/2008	14/5/2009– 13/8/2011	0.116	0.112
	4,000,000	–	–	4,000,000	–	14/11/2008	14/11/2009– 13/8/2011	0.116	0.112
	9,500,000	–	–	–	9,500,000	7/7/2009	7/7/2009– 6/3/2012	0.160	0.157
	180,000,000	–	–	–	180,000,000	7/7/2009	11/8/2009– 6/3/2012	0.160	0.157
	248,000,000	7,000,000	50,500,000	8,000,000	196,500,000				
	258,500,000	107,000,000	50,500,000	8,000,000	307,000,000				

Notes:

- The exercise price of the share options is subject to adjustment in the case of capitalisation issue, rights issue, subdivision or consolidation of the shares of the Company, or other similar changes in the Company's share capital.
- The price of the shares of the Company before the date of the grant of the share options is the closing price of the shares of the Company as quoted on the Stock Exchange on the trading day immediately before the date on which the share options were granted.
- During the year, a total of 64,000,000 share options were granted to Mr. Yeh Shuen Ji, Mr. Bai Baohua and Mr. Wong Shui Lung and two employees on 25 March 2011 ("March Grant") but were subsequently cancelled and re-granted on 6 April 2011 pursuant to the requirements of the GEM Listing Rules.

Save as disclosed above, as at the date of this report, no share options were exercised subsequent to the balance sheet date.

REPORT OF THE DIRECTORS

The existing share option scheme of the Company expired on 6 March 2012, whilst all the outstanding share options were lapsed because of the expiry of the option period.

During the year ended 31 December 2011, a total of 107,000,000 share options were granted by the Company on 24 January 2011 and 6 April 2011 respectively, among which 100,000,000 share options were granted to four directors of the Company. The directors of the Company have estimated the following theoretical valuations of the said 107,000,000 share options granted under the Share Option Scheme during the year, calculated using the Black-Scholes option pricing model which is a generally accepted method of valuing share options as at the date of grant of the share options:

Name of grantees	Number of share options granted during the year	Theoretical value of the share options HK\$
Ma Hang Kon, Louis	40,000,000	698,605
Wong Shui Lung	20,000,000	665,400
Yeh Shuen Ji	20,000,000	665,400
Bai Baohua	20,000,000	665,400
Others	7,000,000	185,475
	107,000,000	2,880,280

The fair value of the share options granted during the year ended 31 December 2011 was HK\$2,880,280 (2010: Nil) of which the Group recognised a share option expense of HK\$2,880,280 (2010: Nil) during the year.

The fair value of equity-settled share options granted during the period was estimated as at the date of grant, using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	-
Expected volatility (%)	58–69
Historical volatility (%)	58–69
Risk-free interest rate (%)	0.2–0.3
Expected life of share options (year)	0.7–0.9
Closing share price at grant date (HK\$)	0.078–0.143

The expected life of the share options is based on management expectation and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, the directors and chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or Rule 5.46 of the GEM Listing Rules:

Interests and short positions in the shares and the underlying shares of the share options of the Company as at 31 December 2011

(i) Long positions in the shares of the Company:

Name of directors	Number of the shares interested and nature of interest			Approximate percentage of the total issued share capital of the Company (%)
	Personal	Corporate	Total	
Ma Hang Kon, Louis	9,800,000	–	9,800,000	0.15
Lai Wing Hung (Note)	75,000,000	1,277,680,000	1,352,680,000	21.21
Fung Hoi Wing, Henry	550,000	–	550,000	0.01

Note: Of the shareholdings in which Mr. Lai Wing Hung was interested, 1,277,680,000 shares of the Company were held by MCL. Mr. Lai Wing Hung is deemed to be interested in such shares of the Company under the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of MCL through his 30% personal shareholdings in MCL and through his 100% shareholdings in Merdeka Finance Group Limited ("MFGL"), which in turn held 70% shareholdings in MCL as at 31 December 2011. The remaining 75,000,000 shares of the Company were beneficially owned by Mr. Lai Wing Hung personally.

REPORT OF THE DIRECTORS

(ii) Long positions in the underlying shares of the share options granted under the share option scheme of the Company:

Name of directors	Date of grant of the share options	Exercise period of the share options	Exercise price per share HK\$	Number of the share options outstanding	Number of the total underlying shares	Approximate percentage of the total issued share capital of the Company (%)
Ma Hang Kon, Louis	24/1/2011	24/10/2011–6/3/2012	0.078	40,000,000	40,000,000	0.63
Yeh Shuen Ji	6/4/2011	24/10/2011–6/3/2012	0.143	20,000,000	20,000,000	0.31
Bai Baohua	6/4/2011	24/10/2011–6/3/2012	0.143	20,000,000	20,000,000	0.31
Wong Shui Lung	6/4/2011	24/10/2011–6/3/2012	0.143	20,000,000	20,000,000	0.31
Fung Hoi Wing, Henry	7/7/2009	11/8/2009–6/3/2012	0.160	3,500,000	3,500,000	0.05
Lau Ho Wai, Lucas	7/7/2009	11/8/2009–6/3/2012	0.160	3,500,000	3,500,000	0.05
Lam Kin Kau, Mark	7/7/2009	11/8/2009–6/3/2012	0.160	3,500,000	3,500,000	0.05

(iii) Long positions in the underlying shares of the convertible bonds of the Company:

Name of the holder of the convertible bonds	Description of equity derivatives	Principal amount of the convertible bonds HK\$	Number of the total underlying shares	Approximate percentage of the total issued share capital of the Company (%)
Lai Wing Hung	MCL Convertible Bonds (Note)	404,880,000	4,048,800,000	63.47

Note: The MCL Convertible Bonds, originally due on 12 August 2011 and extended to 12 August 2014, are unlisted, interest-free and convertible into the shares of the Company at the conversion price of HK\$0.10 per share of the Company (subject to adjustment pursuant to the MCL Convertible Bonds). Mr. Lai Wing Hung is deemed to be interested in such underlying shares of the Company under the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of MCL through his 30% personal shareholding in MCL and through his 100% shareholding in MFGL, which in turn held 70% shareholding in MCL as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, none of the directors and chief executive of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or Rule 5.46 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' Interests in Shares and Underlying Shares" above and "Share Option Scheme" below, at no time during the year ended 31 December 2011 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the directors and chief executive of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2011, the following persons (not being the directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

(i) Long positions in the shares of the Company:

Name of shareholders	Capacity and nature of interest	Notes	Number of the shares interested	Approximate percentage of the total issued share capital of the Company (%)
MCL	Directly beneficially owned		1,277,680,000	20.03
MFGL	Through a controlled corporation	1	1,277,680,000	20.03
Manistar	Directly beneficially owned		1,331,764,070	20.88
CCT Capital International Holdings Limited	Through a controlled corporation	2	1,331,764,070	20.88
CCT Telecom	Through a controlled corporation	2	1,331,764,070	20.88
Mak Shiu Tong, Clement	Through a controlled corporation	2 and 3	1,331,764,070	20.88

Notes:

- The 1,277,680,000 shares of the Company were held by MCL, a subsidiary of MFGL which is deemed to be interested in such shares of the Company under the SFO as it is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of MCL through its shareholding of 70% of the total issued share capital in MCL as at 31 December 2011.
- The shares of the Company were held by Manistar, which is wholly-owned by CCT Capital International Holdings Limited which in turn is a wholly-owned subsidiary of CCT Telecom.
- The interest disclosed represents 1,331,764,070 shares of the Company beneficially held by Manistar, an indirect wholly-owned subsidiary of CCT Telecom. Mr. Mak Shiu Tong, Clement is deemed to be interested in such shares of the Company under the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of CCT Telecom through his controlling interest in the shareholding of CCT Telecom as at 31 December 2011.

REPORT OF THE DIRECTORS

(ii) Long positions in the underlying shares of the convertible bonds of the Company:

Name of the holder of the convertible bonds	Description of equity derivatives	Principal amount of the convertible bonds HK\$	Number of the total underlying shares	Approximate percentage of the total issued share capital of the Company (%)
MCL	MCL Convertible Bonds (Note)	404,880,000	4,048,800,000	63.47
MFGL	MCL Convertible Bonds (Note)	404,880,000	4,048,800,000	63.47

Note: The MCL Convertible Bonds, originally due on 12 August 2011 and extended to 12 August 2014, are unlisted, interest-free and convertible into the shares of the Company at the conversion price of HK\$0.10 per share of the Company (subject to adjustment pursuant to the MCL Convertible Bonds). MFGL is deemed to be interested in such underlying shares of the Company under the SFO as it is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of MCL through its shareholding of 70% of the total issued share capital in MCL as at 31 December 2011.

Save as disclosed above, the directors and chief executive of the Company are not aware that there is any party who, as at 31 December 2011, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions set out in the Code set out in Appendix 15 to the GEM Listing Rules throughout the financial year under review, except for the deviations from Code Provisions A.4.1 and A.4.2. Detailed information of such deviations and their respective considered reasons as well as other information on the corporate governance practices of the Company are set out in the section headed "Corporate Governance Report" in this Annual Report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float of not less than 25% of the total issued share capital of the Company as required under the GEM Listing Rules throughout the financial period under review and up to the date of this Annual Report.

REPORT OF THE DIRECTORS

AUDITORS

The financial statements for the period ended 31 December 2011 have been audited by Messrs. Crowe Horwath (HK) CPA Limited, who will retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming AGM of the Company.

ON BEHALF OF THE BOARD

Ma Hang Kon, Louis
Chief Executive Officer

Hong Kong
22 March 2012

Independent Auditor's Report



國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
 Member Crowe Horwath International

香港銅鑼灣希慎道33號利園34樓
 34/F The Lee Gardens,
 33 Hysan Avenue,
 Causeway Bay, Hong Kong

To the shareholders of Merdeka Resources Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Merdeka Resources Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 35 to 89, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of 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. This report is made 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.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Crowe Horwath (HK) CPA Limited

Certified Public Accountants

22 March 2012

Alvin Yeung Sik Hung

Practising Certificate Number P05206

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
REVENUE	7	8,891	6,715
Cost of sales		(8,096)	(6,614)
Gross profit		795	101
Other income and other net gain	7	43	516
Operating expenses		(19,135)	(28,888)
Administrative expenses		(15,862)	(10,268)
Change in fair value of biological assets less cost to sell		2,944	4,843
Equity-settled share option expenses		(2,880)	–
Loss from operations		(34,095)	(33,696)
Finance costs	10	(35,431)	(33,758)
LOSS BEFORE TAX	8	(69,526)	(67,454)
Income tax	13	–	–
LOSS FOR THE YEAR		(69,526)	(67,454)
Attributable to:			
Owners of the Company	14	(67,157)	(64,294)
Non-controlling interests		(2,369)	(3,160)
LOSS FOR THE YEAR		(69,526)	(67,454)
LOSS PER SHARE			
Basic and diluted	16	(HK1.2 cents)	(HK1.2 cents)

Details of dividends payable to owners of the Company for the year are set out in note 15.

The notes on pages 41 to 89 form part of these financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	2011 HK\$'000	2010 HK\$'000
LOSS FOR THE YEAR	(69,526)	(67,454)
Other comprehensive loss		
Exchange difference on translating of financial statements of overseas subsidiaries	(21)	(429)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(69,547)	(67,883)
Total comprehensive loss attributable to:		
Owners of the Company	(67,178)	(64,723)
Non-controlling interests	(2,369)	(3,160)
	(69,547)	(67,883)

The notes on pages 41 to 89 form part of these financial statements.

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	39,424	37,101
Forest concessions	18	829,811	833,535
Biological assets	19	9,579	6,635
Total non-current assets		878,814	877,271
Current assets			
Trade receivables	21	2,878	–
Prepayments, deposits and other receivables	22	2,314	5,951
Inventories	23	1,914	–
Cash and cash equivalents	24	35,681	68,569
Total current assets		42,787	74,520
Total assets		921,601	951,791
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Issued capital	28	63,786	53,281
Reserves	30(a)	516,808	372,719
		580,594	426,000
Non-controlling interests		35,372	37,741
Total equity		615,966	463,741
Non-current liabilities			
Convertible bonds	27	304,111	–
Current liabilities			
Other payables and accruals	25	1,524	2,398
Convertible bonds	27	–	485,652
Total current liabilities		1,524	488,050
Total liabilities		305,635	488,050
Total equity and liabilities		921,601	951,791
Net current assets/(liabilities)		41,263	(413,530)
Total assets less current liabilities		920,077	463,741

Ma Hang Kon, Louis
Director

Lai Wing Hung
Director

The notes on pages 41 to 89 form part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

Notes	Attributable to owners of the Company									
	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Equity component of convertible bonds HK\$'000	Share option reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2010	48,231	412,400	66,710	105,083	13,643	478	(202,208)	444,337	40,901	485,238
Changes in equity for 2010:										
Loss for the year	-	-	-	-	-	-	(64,294)	(64,294)	(3,160)	(67,454)
Other comprehensive income	-	-	-	-	-	(429)	-	(429)	-	(429)
Total comprehensive income	-	-	-	-	-	(429)	(64,294)	(64,723)	(3,160)	(67,883)
Issue of new shares upon conversion of convertible bonds	27, 28	5,000	49,880	-	(9,469)	-	-	45,411	-	45,411
Issue of new shares upon exercise of share options	28, 29	50	1,288	-	-	(363)	-	975	-	975
Forfeiture of share options	29	-	-	-	-	(365)	-	365	-	-
At 31 December 2010 and 1 January 2011	53,281	463,568*	66,710*	95,614*	12,915*	49*	(266,137)*	426,000	37,741	463,741
Changes in equity for 2011:										
Loss for the year	-	-	-	-	-	-	(67,157)	(67,157)	(2,369)	(69,526)
Other comprehensive income	-	-	-	-	-	(21)	-	(21)	-	(21)
Total comprehensive income	-	-	-	-	-	(21)	(67,157)	(67,178)	(2,369)	(69,547)
Issue of new shares upon conversion of convertible bonds	27, 28	10,000	89,629	-	(15,395)	-	-	84,234	-	84,234
Gain on extinguishment of convertible bonds	27	-	-	-	(28,487)	-	161,226	132,739	-	132,739
Equity-settled share option arrangements	29	-	-	-	-	2,880	-	2,880	-	2,880
Issue of new shares upon exercise of share options	28, 29	505	2,391	-	-	(977)	-	1,919	-	1,919
Forfeiture of share options	29	-	-	-	-	(327)	-	327	-	-
At 31 December 2011	63,786	555,588*	66,710*	51,732*	14,491*	28*	(171,741)*	580,594	35,372	615,966

* These reserve accounts comprise the consolidated reserves of approximately HK\$516,808,000 (2010:HK\$372,719,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(69,526)	(67,454)
Adjustments for:			
Finance costs	10	35,431	33,758
Interest income	7	(39)	(60)
Depreciation		7,185	5,340
Loss on disposal of property, plant and equipment		5	109
Gain on disposal of subsidiaries	9	–	(441)
Amortisation of forest concessions	18	3,724	266
Fair value gain on biological assets	19	(2,944)	(4,843)
Equity-settled share option expenses	29	2,880	–
		(23,284)	(33,325)
(Increase)/decrease in trade receivables		(2,878)	3,479
Decrease in prepayments, deposits and other receivables		3,637	6,302
Increase in inventories		(1,914)	–
Decrease in trade payables		–	(3,427)
Decrease in other payables and accruals		(894)	(2,197)
Net cash flows used in operating activities		(25,333)	(29,168)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		39	60
Purchases of property, plant and equipment	17	(9,513)	(7,382)
Purchase of biological assets	19	–	(1,792)
Decrease in pledged time deposits		–	4,238
Net cash flows used in investing activities		(9,474)	(4,876)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options		1,919	975
Net cash flows from financing activities		1,919	975
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		68,569	101,439
Effect of foreign exchange rate changes, net		–	199
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	35,681	68,569

Statement of Financial Position

31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	20	957,573	932,146
Current assets			
Prepayments, deposits and other receivables	22	81	177
Cash and cash equivalents	24	24,047	58,205
Total current assets		24,128	58,382
Total assets		981,701	990,528
EQUITY AND LIABILITIES			
Issued capital	28	63,786	53,281
Reserves	30(b)	584,955	413,835
Total equity		648,741	467,116
Non-current liabilities			
Convertible bonds	27	304,111	–
Current liabilities			
Other payables and accruals	25	240	150
Due to subsidiaries	20	28,609	37,610
Convertible bonds	27	–	485,652
Total current liabilities		28,849	523,412
Total liabilities		332,960	523,412
Total equity and liabilities		981,701	990,528
Net current liabilities		(4,721)	(465,030)
Total assets less current liabilities		952,852	467,116

Ma Hang Kon, Louis
Director

Lai Wing Hung
Director

The notes on pages 41 to 89 form part of these financial statements.

Notes to the Financial Statements

31 December 2011

1. CORPORATE INFORMATION

The Company is a limited company incorporated in the Cayman Islands, its registered office is located at the offices of Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is located at Room 1903A, The Sun's Group Centre, No. 200 Gloucester Road, Wanchai, Hong Kong.

The Company's immediate parent company is Merdeka Commodities Limited ("MCL") whereas the directors consider that the Company's ultimate controlling parent company is Merdeka Finance Group Limited ("MFGL"), both companies not being listed companies and neither of them produces consolidated financial statements for public use.

During the year ended 31 December 2011, the principal activity of the Company was investment holding. The principal activities of the subsidiaries comprised trading business, forestry business and plantation business.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 4 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- biological assets (see note 3(e))

These financial statements are presented in Hong Kong Dollars ("HK\$"), rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. 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.

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 5.

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

In the Company's statement of financial position, an investment in a subsidiary is carried at cost less impairment losses (see note 3(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Business combinations

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

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

- a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12, Income Tax;
- assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee Benefits;
- liabilities or equity instruments relating to share-based payment transactions of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

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

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Business combinations (Continued)

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

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

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

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

(d) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 3(i)).

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

Plant and machinery	12.5% to 20%
Roads and bridges	20%
Leasehold improvement	20%
Computer and office equipment	20% to 33%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Construction in progress represents buildings under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(e) Biological assets

Biological assets are living plants which are subject to agricultural activities of the transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets. Biological assets are measured at their fair value less cost to sell. Agricultural produce harvested from the Group's biological assets are measured at its fair value less cost to sell at the point of harvest.

(f) Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses or at revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any subsequent accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Forest concession rights acquired by the Group are stated at cost less accumulated amortisation and any accumulated impairment losses. These concession rights give the Group rights to logging trees in the allocated concession forests in designated areas in the Papua Province of Indonesia. Amortisation is charged on a unit of production basis over the estimated useful lives of forest concession rights.

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating leases charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged as expenses in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(h) Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, trade and other receivables.

Subsequent measurement

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

Loans and receivables

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

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets

i) Impairment of investment in equity securities and other receivables

Investment in equity securities (other than investments in subsidiaries: see note 3(i)ii), and other current and non-current receivables that are carried at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

- For unlisted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade receivables and other financial assets carried at amortised cost, 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 financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed.

Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the profit or loss.

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

ii) Impairment of other assets

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

- property, plant and equipment;
- intangible assets; and
- interest in subsidiaries

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

– Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

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

(j) Derecognition of financial assets

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

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

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

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

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 3(i)).

(m) Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables and convertible bonds.

Convertible bonds

Convertible bonds issued by the Group contain a liability and a conversion option. The liability and conversion option are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. At the date of issue, the fair value of the liability component is determined using the prevailing market interest rates of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (equity component of convertible bonds).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in equity component of convertible bonds until the embedded conversion option is exercised (in which case the balance stated in equity component of convertible bonds will be transferred to share premium).

Where the conversion option remains unexercised at the expiry date, the balance stated in equity component of convertible bonds will be released to the retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial liabilities (Continued)

Derecognition of financial liabilities

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

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

(n) Fair value of financial instruments

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

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future or, in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 3(q)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 3(q)(ii).

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Provisions and contingent liabilities (Continued)

ii) Provisions and contingent liabilities

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, provisions are carried 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 an 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 an outflow of economic benefits is remote.

(r) 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 the other entity is an associate of the third entity.
 - v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - vi) The entity is controlled or jointly controlled by a person identified in a).
 - vii) A person identified in a) i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family 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.

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and returns.

ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(t) Employee benefits

i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are carried at their present values.

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

iii) Termination benefits

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

Notes to the Financial Statements

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Foreign currencies translation

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in the other comprehensive income and accumulated in the exchange fluctuation reserve.

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Financial Statements

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4. APPLICATION OF NEW AND REVISED HKFRSs

The Group has adopted the following new and revised HKFRSs that are first effective for the current accounting period.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current and prior accounting periods, and/or on the disclosures set out on these financial statements.

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has revised the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (as revised in 2009) also introduces modified disclosure requirements for government-related entities. The disclosure about the Group's related parties have been conformed to the amended disclosure requirements.

Improvements to HKFRSs issued in 2010

Improvements to HKFRSs issued in 2010 omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7 Financial instruments: Disclosures. The disclosures about the Group's and the Company's financial instruments in note 35 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

5. ACCOUNTING ESTIMATES AND JUDGEMENT

(a) Key sources of Estimation Uncertainty

In the process of applying the Group's accounting policies which are described in note 3, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

(i) Amortisation of forest concession rights

Forest concession rights are amortised on a unit of production basis over the estimated useful lives. The determination of the useful lives involves management's estimation. The Group reassesses the useful life of the forest concession rights and if the expectation differs from the original estimate, such a difference may impact the amortisation in the years and the estimate will be changed in the future period.

Notes to the Financial Statements

31 December 2011

5. ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

(a) Key sources of Estimation Uncertainty (Continued)

(ii) Property, plant and equipment and depreciation

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iii) Impairment of assets

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

(iv) Income tax

The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be charged. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(v) Fair values of biological assets

Management estimates at the end of the reporting period the fair value of biological assets less costs to sell with reference to market prices. Unanticipated volatile changes in market prices of the underlying agricultural produce could significantly affect the fair values of these biological assets and result in fair value re-measurement losses in future accounting periods.

(vi) Valuation for convertible bonds

The fair value of convertible bonds is determined by using valuation techniques. The Group has adopted judgment to select an appropriate valuation method and make assumption that are mainly based on market conditions existing at the transaction date and each reporting date with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers. The valuation model requires the input of subjective assumptions which includes the stock price volatility, expected dividend yield, risk free rate and expected life. Change in subjective input assumptions can materially affect the fair value estimate.

(b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

Notes to the Financial Statements

31 December 2011

6. SEGMENT REPORTING

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

- (a) the trading business segment engages in the trading of products, components and accessories; and
- (b) the forestry business segment engages in logging of trees, the operations of wood-processing factories and the sale of sawn timber, other timber and wood products; and
- (c) the plantation business segment engages in plantation of oil palm trees and sale of palm oil.

Executive directors, who are the chief operating decision makers, monitor the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, finance costs, equity-settled share option expenses, as well as head office and corporate expenses are excluded from such measurement.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Segment assets include non-current assets and current assets with the exception of certain assets unallocated to an individual reportable segment.

Segment liabilities include non-current liabilities and current liabilities with the exception of convertible bonds, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

For the year ended 31 December 2011

HK\$'000	Trading business	Forestry business	Plantation business	Total	Reconciliations	Group Total
Segment revenue:						
Revenue from external customers	4,072	4,819	–	8,891	–	8,891
Operating profit/(loss)	85	(25,769)	(993)	(26,677)	–	(26,677)
Interest income	–	4	–	4	35	39
Finance costs	–	(35,431)	–	(35,431)	–	(35,431)
Fair value gain on biological assets less cost to sell	–	–	2,944	2,944	–	2,944
Reconciled items:						
Unallocated expenses	–	–	–	–	(7,521)	(7,521)
Equity-settled share option expenses	–	–	–	–	(2,880)	(2,880)
Profit/(loss) before tax	85	(61,196)	1,951	(59,160)	(10,366)	(69,526)
Additions to non-current assets	–	4,513	–	4,513	5,000	9,513
Fair value gain on biological assets less cost to sell	–	–	2,944	2,944	–	2,944
Depreciation (note 8(b))	–	(6,156)	(207)	(6,363)	–	(6,363)
Amortisation of forest concessions	–	(3,724)	–	(3,724)	–	(3,724)

Notes to the Financial Statements

31 December 2011

6. SEGMENT REPORTING (Continued)

For the year ended 31 December 2010

HK\$'000	Trading business	Forestry business	Plantation business	Total	Reconciliations	Group Total
Segment revenue:						
Revenue from external customers	6,715	–	–	6,715	–	6,715
Operating loss	(73)	(26,560)	(10,491)	(37,124)	–	(37,124)
Interest income	–	44	–	44	16	60
Finance costs	–	(33,758)	–	(33,758)	–	(33,758)
Fair value gain on biological assets less cost to sell	–	–	4,843	4,843	–	4,843
Reconciled items:						
Unallocated expenses	–	–	–	–	(1,475)	(1,475)
Loss before tax	(73)	(60,274)	(5,648)	(65,995)	(1,459)	(67,454)
Additions to non-current assets	–	7,382	1,792	9,174	–	9,174
Fair value gain on biological assets less cost to sell	–	–	4,843	4,843	–	4,843
Depreciation (note 8(b))	–	(5,340)	–	(5,340)	–	(5,340)
Amortisation of forest concessions	–	(266)	–	(266)	–	(266)

As at 31 December 2011

HK\$'000	Trading business	Forestry business	Plantation business	Total	Reconciliations	Group Total
Segment assets	2,878	880,016	9,579	892,473	–	892,473
Reconciled items:						
Cash and cash equivalents	–	–	–	–	24,047	24,047
Unallocated assets	–	–	–	–	5,081	5,081
Total assets	2,878	880,016	9,579	892,473	29,128	921,601
Segment liabilities	–	1,284	–	1,284	–	1,284
Convertible bonds	–	304,111	–	304,111	–	304,111
Reconciled items:						
Unallocated liabilities	–	–	–	–	240	240
Total liabilities	–	305,395	–	305,395	240	305,635

Notes to the Financial Statements

31 December 2011

6. SEGMENT REPORTING (Continued)

As at 31 December 2010

HK\$'000	Trading business	Forestry business	Plantation business	Total	Reconciliations	Group Total
Segment assets	3,416	883,358	6,635	893,409	–	893,409
Reconciled items:						
Cash and cash equivalents	–	–	–	–	58,205	58,205
Unallocated assets	–	–	–	–	177	177
Total assets	3,416	883,358	6,635	893,409	58,382	951,791
Segment liabilities	160	2,088	–	2,248	–	2,248
Convertible bonds	–	485,652	–	485,652	–	485,652
Reconciled items:						
Unallocated liabilities	–	–	–	–	150	150
Total liabilities	160	487,740	–	487,900	150	488,050

Geographical information

(a) Revenue from external customers

	Note	Year ended 31 December	
		2011 HK\$'000	2010 HK\$'000
Mainland China		–	6,715
Hong Kong (place of domicile)		8,891	–
	7	8,891	6,715

The revenue information is based on the location of the customers.

(b) Non-current assets

	As at 31 December	
	2011 HK\$'000	2010 HK\$'000
Indonesia	878,136	869,308
Hong Kong (place of domicile)	678	7,963
	878,814	877,271

The non-current asset information above is based on the location of assets.

Notes to the Financial Statements

31 December 2011

6. SEGMENT REPORTING (Continued)

Information about major customers

Revenues from customers contributing 10% or more of the total sales of the Group are as follows:

	Year ended 31 December	
	2011 HK\$'000	2010 HK\$'000
Customer A – revenue from forestry and trading business – Hong Kong	6,966	–
Customer B – revenue from trading business – Hong Kong	1,925	–
Customer C – revenue from trading business – Hong Kong	–	6,715
	8,891	6,715

7. REVENUE, OTHER INCOME AND OTHER NET GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue and other income is as follows:

	Note	2011 HK\$'000	2010 HK\$'000
Revenue			
Sales of goods attributable to the trading business		4,072	6,715
Sales of logs attributable to the forestry business		4,819	–
		8,891	6,715
Other income			
Interest income on bank deposit		39	60
Others		4	15
		43	75
Other net gain			
Gain on disposal of subsidiaries	9	–	441
		43	516

Notes to the Financial Statements

31 December 2011

8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2011 HK\$'000	2010 HK\$'000
(a) Staff costs (including directors' emoluments (note 11))*:		
Salaries, wages and other benefits	15,318	9,622
Equity-settled share-option expenses	2,880	–
Pension scheme contributions	140	203
	18,338	9,825
(b) Other items:		
Auditors' remuneration		
– Audit services	761	568
Depreciation**	6,363	5,340
Cost of inventories sold***	8,096	6,614
Minimum lease payments under operating leases:		
Land and buildings	1,143	2,183
Loss on disposal of property, plant and equipment	5	109
Amortisation of forest concessions	3,724	266
Fair value gain on biological assets	(2,944)	(4,843)
Foreign exchange loss, net	10	281

* The amount excludes staff costs capitalised in inventories as at year end of approximately HK\$389,000 (2010: nil).

** The amount excludes depreciation capitalised in inventories as at year end of approximately HK\$822,000 (2010: nil).

*** Cost of inventories sold includes depreciation of approximately HK\$1,638,000 (2010: nil), and staff costs of approximately HK\$757,000 (2010: nil), the amount of which are also included in the respective total amounts disclosed separately above.

Notes to the Financial Statements

31 December 2011

9. DISPOSAL OF SUBSIDIARIES

(a) For the year ended 31 December 2011

No disposal of subsidiaries was made during the year.

(b) For the year ended 31 December 2010

- (i) On 26 July 2010, the Company disposed of a subsidiary named Wonderful Goal Investments Limited to an independent third party. Wonderful Goal Investments Limited held 100% of Tradeeasy Information Technology (Beijing) Limited. Both of the companies are dormant during the year.

Net assets disposed of

	Year ended 31 December 2010 HK\$'000
Amounts due from the Group	4,512
Accruals and other payables	(63)
	4,449
Less: Exchange reserves	(488)
Net assets disposed	3,961
Less: Waive of current accounts	(4,512)
Gain on disposal of subsidiaries	(551)
	HK\$
Analysis of the net inflow of cash and cash equivalents in respect of the disposal	
Cash received	100
Cash and bank balances disposed of	(343)
Net cash outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(243)

Notes to the Financial Statements

31 December 2011

9. DISPOSAL OF SUBSIDIARIES (Continued)

(b) For the year ended 31 December 2010 (Continued)

- (ii) On 21 November 2010, the Company deregistered a subsidiary named Tradeeasy Information Technology (Guangzhou) Limited. The company was dormant and undergoes deregistration during the year.

Net liabilities written off

	Year ended 31 December 2010 HK\$'000
Amounts due to the Group Accruals and other payables	(18,139) (41)
Less: Exchange reserves	(18,180) 151
Net liabilities disposed Less: Waive of current accounts	(18,029) 18,139
Loss on disposal of subsidiaries	110
	HK\$
Analysis of the net inflow of cash and cash equivalents in respect of the disposal	
Cash received	–
Cash and bank balances disposed of	(44)
Net cash outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(44)

* Net gain on disposal of subsidiaries was approximately HK\$441,000.

10. FINANCE COSTS

	2011 HK\$'000	2010 HK\$'000
Interest on convertible bonds (note 27)	35,431	33,758

The charge represents the imputed interest on the liability component of the convertible bonds for the year.

Notes to the Financial Statements

31 December 2011

11. DIRECTORS' EMOLUMENTS

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

	2011 HK\$'000	2010 HK\$'000
Executive directors:		
Fees	–	–
Other emoluments:		
Salaries, housing allowances, other allowances and benefits in kind	3,958	770
Pension scheme contributions	24	5
Equity-settled share option expenses	1,364	–
	5,346	775
Non-executive directors:		
Fees	–	–
Other emoluments:		
Salaries, housing allowances, other allowances and benefits in kind	1,488	–
Pension scheme contributions	–	–
Equity-settled share option expenses	1,330	–
	2,818	–
Independent non-executive directors:		
Fees	180	180
Other emoluments	–	–
	180	180
	8,344	955

During the year ended 31 December 2011, certain directors were granted share options in respect of their services to the Group under the Company's share option scheme, further details of which are set out in note 29 to the financial statements. The share options have been vested upon the date of grant. The fair value of such share options which has been recognised in the profit and loss, was determined as at the date of grant and the amount included in the financial statements for the period is included in the above disclosure for directors' emoluments. During the year ended 31 December 2010, no directors were granted share options.

Notes to the Financial Statements

31 December 2011

11. DIRECTORS' EMOLUMENTS (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Fees HK\$'000	Other emoluments HK\$'000	Total HK\$'000
2011:			
Lam Kin Kau, Mark	60	–	60
Fung Hoi Wing, Henry	60	–	60
Lau Ho Wai, Lucas	60	–	60
	180	–	180
2010:			
Lam Kin Kau, Mark	60	–	60
Fung Hoi Wing, Henry	60	–	60
Lau Ho Wai, Lucas	60	–	60
	180	–	180

(b) Non-executive directors

	Salaries, housing allowances, other allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Equity- settled share option expenses HK\$'000	Total emoluments HK\$'000
2011:				
Yeh Shuen Ji (note 1)	744	–	665	1,409
Bai Baohua (note 1)	744	–	665	1,409
	1,488	–	1,330	2,818

2010: No non-executive directors were appointed for the year ended 31 December 2010.

Note 1: Mr. Yeh Shuen Ji and Mr. Bai Baohua were appointed as directors of the Company on 27 January 2011.

Notes to the Financial Statements

31 December 2011

11. DIRECTORS' EMOLUMENTS (Continued)

(c) Executive directors

	Salaries, housing allowances, other allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Equity- settled share option expenses HK\$'000	Total emoluments HK\$'000
2011:				
Ma Hang Kon, Louis	2,200	12	699	2,911
Lai Wing Hung	1,200	12	–	1,212
Wong Shui Lung (note 1)	558	–	665	1,223
	3,958	24	1,364	5,346
2010:				
Ma Hang Kon, Louis (note 2)	643	3	–	646
Lai Wing Hung (note 2)	127	2	–	129
Mak Shiu Tong, Clement (note 3)	–	–	–	–
Tam Ngai Hung, Terry (note 3)	–	–	–	–
Cheng Yuk Ching, Flora (note 3)	–	–	–	–
William Donald Putt (note 3)	–	–	–	–
	770	5	–	775

Note 1: Mr. Wong Shui Lung was appointed as director of the Company on 27 January 2011.

Note 2: Mr. Ma Hang Kon, Louis was reappointed as director of the Company and Mr. Lai Wing Hung was appointed as director of the Company on 23 November 2010.

Note 3: Mr. Mak Shiu Tong, Clement, Mr. Tam Ngai Hung, Terry, and Ms. Cheng Yuk Ching, Flora and Mr. William Donald Putt resigned as directors of the Company on 23 November 2010.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2010 and 2011.

During the year ended 31 December 2010 and 2011, no emolument was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

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13. INCOME TAX (Continued)

	Indonesia		Hong Kong		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
2010:						
Loss before tax	(28,578)		(38,876)		(67,454)	
Tax at the applicable tax rate	(7,145)	25.0	(6,415)	16.5	(13,560)	20.1
Income not subject to tax	(11)	–	(874)	2.2	(885)	1.3
Expenses not deductible for tax purpose	–	–	5,614	(14.4)	5,614	(8.3)
Tax losses not recognised	7,156	(25.0)	1,675	(4.3)	8,831	(13.1)
Tax charge at the Group's effective rate	–	–	–	–	–	–

14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2011 includes a loss of about HK\$40,147,000 (2010: HK\$49,886,000) which has been dealt with in the financial statements of the Company (note 30(b)).

15. DIVIDEND

No dividend has been paid or declared by the Company during the year (2010: Nil).

16. LOSS PER SHARE

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

The calculation of basic and diluted loss per share is based on:

	2011 HK\$'000	2010 HK\$'000
Loss		
Loss attributable to owners of the Company used in the basic loss per share calculation	(67,157)	(64,294)
	Number of shares (thousands)	
Shares		
Weighted average number of ordinary shares in issue during the year	5,725,312	5,237,491

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2011 and 2010 in respect of a dilution as the impact of the convertible bonds and share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

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17. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK\$'000	Road and bridges HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Computer and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
2011							
At 1 January 2011:							
Cost	-	1,044	390	41,639	1,040	1,080	45,193
Accumulated depreciation	-	(90)	(341)	(6,646)	(441)	(574)	(8,092)
Carrying amount	-	954	49	34,993	599	506	37,101
At 1 January 2011, net of accumulated depreciation	-	954	49	34,993	599	506	37,101
Additions	5,000	213	355	3,512	158	275	9,513
Disposal and write-off	-	-	-	-	(5)	-	(5)
Depreciation provided during the year	-	(272)	(99)	(6,212)	(281)	(321)	(7,185)
At 31 December 2011, net of accumulated depreciation	5,000	895	305	32,293	471	460	39,424
At 31 December 2011:							
Cost	5,000	1,257	745	45,151	1,184	1,355	54,692
Accumulated depreciation	-	(362)	(440)	(12,858)	(713)	(895)	(15,268)
Carrying amount	5,000	895	305	32,293	471	460	39,424

Notes to the Financial Statements

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17. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Construction in progress HK\$'000	Road and bridges HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Computer and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
2010							
At 1 January 2010:							
Cost	4,233	–	1,020	31,953	676	885	38,767
Accumulated depreciation	–	–	(504)	(2,318)	(207)	(278)	(3,307)
Carrying amount	4,233	–	516	29,635	469	607	35,460
At 1 January 2010, net of accumulated depreciation	4,233	–	516	29,635	469	607	35,460
(Transfer)/Additions	(4,233)	1,028	194	9,962	377	54	7,382
Disposal and write-off	–	–	(103)	–	(6)	–	(109)
Depreciation provided during the year	–	(90)	(558)	(4,169)	(256)	(267)	(5,340)
Exchange realignment	–	16	–	(435)	15	112	(292)
At 31 December 2010, net of accumulated depreciation	–	954	49	34,993	599	506	37,101
At 31 December 2010:							
Cost	–	1,044	390	41,639	1,040	1,080	45,193
Accumulated depreciation	–	(90)	(341)	(6,646)	(441)	(574)	(8,092)
Carrying amount	–	954	49	34,993	599	506	37,101

Notes to the Financial Statements

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18. FOREST CONCESSIONS

	2011 HK\$'000	2010 HK\$'000
Cost:		
At 1 January and 31 December	833,801	833,801
Accumulated amortisation:		
At 1 January	(266)	–
Charge for the year	(3,724)	(266)
At 31 December	(3,990)	(266)
Carrying amount:		
At 31 December	829,811	833,535

Amortisation is charged on a unit of production basis over the estimated useful lives of forest concessions.

The Group acquired certain forest concessions in the Papua Province of Indonesia through acquisitions of subsidiaries. The forest concession rights cover the entire forest area of 313,500 hectares. This is a long term licence which allows logging, land clearing and plantation of oil palm trees.

In March 2012, the Company obtained an updated legal opinion and legal confirmation letter from Adi Prasetyo & Partners Law Firm, which confirmed that the location permit has been legally granted by the Head of Mimika Regency to the Company for allocation of forest areas in aggregate of 313,500 hectares, located in the Mimika Areas. The plantation business licence has been legally granted to the Company by the Governor of Papua, Indonesia. As such, the Company is legally permitted to carry out land clearing activities and to develop oil palm plantation business, including but not limited to carrying out felling, logging and harvesting of trees, and plantation activities within the Mimika Concessions Areas.

The Company commenced the process to apply to the National Land Agency for land use right to establish the right to use of land area for oil palm plantation activities according to plantation business licence or Governor Decree 35/2009. The legal opinion mentioned that as the Company has obtained all the licences and permits to carry out logging, harvesting and plantation activities, the application for land use right registration is merely a procedural matter. The land use right registration is relevant only to the plantation activities and is not required for the logging and forest clearing operations. It is expected that there will not be any legal impediment.

As at 31 December 2010 and 2011, the Group has engaged Roma Appraisals Limited (“RAL”), an independent qualified professional valuer not connected with the Group to value the forest concession right. The concession was appraised at a fair value of approximately HK\$938,000,000 (2010: HK\$926,000,000).

RAL is a member of the Hong Kong Institute of Surveyors. RAL has adopted a direct market data method to value the forest concession right which is based on existing economy, forestry industry, timber production in Indonesia and timber consumption worldwide to assess the fair value of the concession right.

Notes to the Financial Statements

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19. BIOLOGICAL ASSETS

	2011 HK\$'000	2010 HK\$'000
At the beginning of the year	6,635	–
Additions	–	1,792
Fair value gain on biological asset less cost to sell	2,944	4,843
At end of the year	9,579	6,635

The Group is engaged in the plantation of oil palm tree for supply of palm oil to customers. At 31 December 2011, the Group held approximately 150 thousands (2010: 180 thousands) seedlings of palm oil trees planted in Timika, Papua, Indonesia to produce palm oil in the future (immature assets).

The fair value of the Group's biological assets was assessed using market-based approach by obtaining information regarding the market prices of similar oil palms from external sources and taking into account the species, ages and countries of origin of the oil palms. The comparable market price and the reported quantity of the oil palms were then adjusted for the growth status, ages and actual quantity of the oil palms. The adjusted comparable market price and quantity of the oil palms were applied to estimate the fair value of the oil palms at the reporting date. Management performs regular reviews on the growth status of biological assets.

20. INTERESTS IN SUBSIDIARIES

An analysis of interests in subsidiaries is as follows:

	Company	
	2011 HK\$'000	2010 HK\$'000
Unlisted shares, at cost	938,602	938,602
Due from subsidiaries	77,376	51,949
Less: Impairment losses	1,015,978 (58,405)	990,551 (58,405)
	957,573	932,146

The amounts due from subsidiaries are unsecured, interest-free and are not expected to be recovered within one year. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries. The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/(to) subsidiaries approximate to their fair values.

Several subsidiaries had recurring operating losses with low liquidity ratio. After reviewing the financial performance and financial position of these subsidiaries, the directors consider that appropriate impairment loss on the amount due from these subsidiaries should be written down to their recoverable amount. As a result of the review, no impairment loss (2010: approximately HK\$14,668,000) has been charged to the income statement of the Company. The recoverable amount of the asset is its fair value less costs to sell.

Notes to the Financial Statements

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20. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of establishment/ incorporation and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
Merdeka Resources International Limited	Hong Kong	HK\$100,000 Ordinary	–	100	Trading business
Source Easy Limited	Hong Kong	HK\$10,000 Ordinary	–	100	Trading business
Merdeka Timber Group Limited	British Virgin Islands/ Hong Kong	US\$12,000	100	–	Investment holding
PT. Merdeka Tapare Timber	Indonesia	US\$500,000	–	65	Forestry business
PT. Merdeka Plantation Indonesia	Indonesia	US\$5,000,000	–	95	Plantation and forestry business

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

21. TRADE RECEIVABLES

	2011 HK\$'000	2010 HK\$'000
Trade receivables	2,878	–

The Group's trading terms with its customers are mainly on credit. The credit period is generally two months to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has credit control procedures established to monitor credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

Notes to the Financial Statements

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21. TRADE RECEIVABLES (Continued)

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2011		2010	
	Balance HK\$'000	Percentage	Balance HK\$'000	Percentage
Current to 30 days	908	32	–	–
31 to 60 days	1,668	58	–	–
61 to 120 days	302	10	–	–
	2,878	100	–	–

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2011 HK\$'000	2010 HK\$'000
Neither past due nor impaired	2,878	–

Receivables that were neither past due nor impaired relate to a customer for whom there was no recent history of default. The Group does not hold any collateral over these balances.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Prepayments	923	4,277	53	150
Deposits and other receivables	1,391	1,674	28	27
	2,314	5,951	81	177

None of the above assets is either past due or impaired. The financial assets except for prepayment and deposit included in the above balances relate to receivables which had no recent history of default.

Notes to the Financial Statements

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23. INVENTORIES

	2011 HK\$'000	2010 HK\$'000
Logs	1,914	–

The analysis of the amount of inventories recognised as an expenses and included in profit or loss is as follows:

Carrying amount of inventories sold	8,096	6,614
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24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Cash and cash equivalents	35,681	68,569	24,047	58,205

At 31 December 2011, bank balances carry interest at market rate of 0.01% to 1.50% (2010: 0.01%) per annum. The bank balances are deposited with creditworthy banks of high credit ratings.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Other payables	482	1,469	–	–
Accruals	1,042	929	240	150
	1,524	2,398	240	150

Other payables are non-interest-bearing and have an average term of three months.

26. DEFERRED TAX

As at 31 December 2011, the Group has unused tax losses of approximately HK\$92,110,000 (2010: HK\$78,546,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

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27. CONVERTIBLE BONDS

On 12 August 2008, the Company issued HK dollar denominated coupon bonds to MCL, the MCL Convertible Bonds as part of the consideration for the acquisition of forest concessions in Papua, Indonesia.

Subject to the restrictions specified below, the MCL Convertible Bonds are convertible at the option of the bondholders into ordinary shares in the Company at the initial conversion price of HK\$0.1 per share (subject to adjustment as provided in the terms and conditions of the MCL Convertible Bonds) at any time from the date of issue and ending on the fifth business day before the third anniversary of the date of issue:

- The bondholders do not have the right to convert any principal amount of the MCL Convertible Bonds into new shares of the Company thereof, if upon such conversion, MCL and the parties acting in concert with it will be interested in 30% (or such amount as may from time to time be specified in the Codes on Takeovers and Mergers and Share Repurchases as being the level for triggering a mandatory general offer) or more of the enlarged issued share capital of the Company at the date of relevant conversion;
- The conversion of the MCL Convertible Bonds shall not cause the Company to be in breach of the minimum public float requirement as stipulated under Rule 11.23 of the GEM Listing Rules; and
- The bondholders do not have the right to convert any MCL Convertible Bonds with the principal amount falling between the range of HK\$350,000,000 to HK\$776,880,000 at any time during the period from the issue date up to and inclusive of the date that falls on the first anniversary of the issue date.

The MCL Convertible Bonds are unsecured, interest-free and have a maturity date of 12 August 2011. Unless converted into the shares of the Company by the Company, the outstanding balance of the MCL Convertible Bonds would be redeemed in full on maturity.

On 30 May 2011, the Company entered into the supplemental deed with MCL to extend the maturity date of MCL Convertible Bonds for 3 years and the conversion period will accordingly be extended from 12 August 2011 (date of extension) to 12 August 2014 (new maturity date). Upon becoming effective of the supplemental deed, the Company may at any time during the period commencing from the date of extension to the new maturity date to redeem the whole or part of the outstanding Convertible Bonds on a pro rata basis. Apart from the extension of the maturity date, the conversion period and the early redemption right, all terms of the MCL Convertible Bonds remain unchanged.

During the year ended 31 December 2011, the MCL Convertible Bonds with a nominal value of HK\$100,000,000 (2010: HK\$50,000,000) were converted into 1,000,000,000 (2010: 500,000,000) shares in the Company of HK\$0.01 each (note 28). The outstanding principal amount of the MCL Convertible Bonds as at 31 December 2011 was HK\$404,880,000 (2010: HK\$504,880,000).

The convertible bonds contain two components, the liability and equity components. The equity component is presented in equity as an "Equity component of convertible bonds".

Upon effective of the supplemental deed in 2011, the convertible bonds was valued by the directors of the Company with reference to a valuation report issued by Grant Sherman Appraisal Limited, an independent qualified valuer not connected to the Group. Gain on extinguishment of convertible bonds in respect of the equity component of approximately HK\$28,487,000 was recognised in the statement of changes in equity for the year ended 31 December 2011 (2010: nil). Gain on extinguishment of convertible bonds in respect of the liability component of approximately HK\$132,739,000 was recognised in the statement of changes in equity as owner's transaction for the year ended 31 December 2011 (2010: nil).

The effective interest rate of the liability component is approximately 11.66% upon extension of maturity date in July 2011 (prior to extension of maturity date: 7.25%).

Notes to the Financial Statements

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27. CONVERTIBLE BONDS (Continued)

The movement of the liability component of the convertible bonds for the year was set out below:

	Group and Company	
	2011 HK\$'000	2010 HK\$'000
At beginning of the year	485,652	497,304
Gain on extinguishment of convertible bonds in respect of liability component	(132,739)	–
Interest charged	35,431	33,758
Conversion of convertible bonds	(84,233)	(45,410)
At end of the year	304,111	485,652

28. SHARE CAPITAL

Shares

	2011 HK\$'000	2010 HK\$'000
Authorised: 20,000,000,000 ordinary shares of HK\$0.01 each	200,000	200,000
Issued and fully paid: 6,378,649,000 (2010: 5,328,149,000) ordinary shares of HK\$0.01 each	63,786	53,281

A summary of the movements in the Company's issued ordinary share capital during the year is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2010	4,823,149,000	48,231	412,400	460,631
Issue of new shares upon exercise of share options	5,000,000	50	1,288	1,338
Issue of new shares upon conversion of convertible bonds (note 27)	500,000,000	5,000	49,880	54,880
At 31 December 2010 and 1 January 2011	5,328,149,000	53,281	463,568	516,849
Issue of new shares upon exercise of share options	50,500,000	505	2,391	2,896
Issue of new shares upon conversion of convertible bonds (note 27)	1,000,000,000	10,000	89,629	99,629
At 31 December 2011	6,378,649,000	63,786	555,588	619,374

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28. SHARE CAPITAL (Continued)

Convertible bonds and share options

Details of the Company's convertible bonds and share option scheme are included in note 27 and 29 to the financial statements respectively.

29. SHARE OPTION SCHEME

The Company operates a Share Option Scheme for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group. The Share Option Scheme was approved by the then sole shareholder of the Company on 20 February 2002 by way of a written resolution. The Board may, at their discretion, offer options to any full-time or part-time employee or director of any member of the Group, and any consultant of or adviser to any member of the Group (the "Participants") to subscribe for shares of the Company (the "Shares"). The Share Option Scheme became effective on 7 March 2002 and shall be valid and effective for a period of 10 years from that date, subject to early termination by the Company in a general meeting or by the Board.

The maximum number of Shares which may be issued upon the exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme must not exceed 30% of the Shares in issue from time to time.

The maximum number of Shares available for issue under share options which may be granted under the Share Option Scheme adopted by the Company must not in aggregate exceed 10% of the Shares in issue. The maximum number of Shares issued and to be issued upon exercise of the share options granted and to be granted to each Participant (including both exercised and outstanding share options) in any 12-month period up to the date of grant must not exceed 1% of the Shares in issue at the date of grant. Any further grant of share options in excess of the above limit must be subject to shareholders' approval with such Participant and his associates (as defined in the GEM Listing Rules) abstaining from voting.

If share options are granted to a connected person (as defined in the GEM Listing Rules) or his associates, the granting of such share options will be subject to approval of all independent non-executive directors ("INEDs") (excluding INED who is a grantee); where options are proposed to be granted to a connected person who is also a substantial shareholder or an INED of the Company or any of their respective associates which will result in the total number of Shares issued and to be issued upon exercise of the share options granted or to be granted (including share options exercised, cancelled and outstanding) to such person under the Share Option Scheme in the past 12-month period up to and including the date of such grant: (1) exceeding 0.1% of the total issued Shares for the time being; and (2) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000, the granting of such options will be subject to approval of the independent shareholders of the Company. All connected persons will abstain from voting (except any connected person that may vote against the resolution).

Upon acceptance of the share option offers, the grantee shall pay HK\$1 to the Company as consideration for each offer. The share option will be offered for acceptance for a period of 28 days (or such shorter period as the Board may from time to time determine) from the date on which the share option is granted. The exercise period of the share options granted is determinable by the directors and commences after a certain vesting period, if any, as determined by the directors and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Share Option Scheme, if earlier.

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29. SHARE OPTION SCHEME (Continued)

The subscription price of the share in respect of any particular share option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price shall be the highest of: (i) the closing price of the Shares as stated in the Stock Exchange daily quotation sheet on the date of the grant of the share option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets on the five business days immediately preceding the date of the grant of the share option; and (iii) the nominal value of the Share.

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

The following share options were outstanding under the Share Option Scheme during the year:

	2011		2010	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At beginning of the year	0.135	258,500	0.137	268,500
Granted during the year	0.117	107,000	–	–
Forfeited/expired during the year	0.116	(8,000)	0.195	(5,000)
Exercised during the year	0.038	(50,500)	0.195	(5,000)
At end of the year	0.145	307,000	0.135	258,500

The exercise prices and exercise periods of the share options outstanding and exercisable as at the end of the reporting period are as follows:

2011 Number of options '000	Exercise price* HK\$ per share	Exercise period
9,500	0.160	7 July 2009 to 6 March 2012
190,500	0.160	11 August 2009 to 6 March 2012
43,000	0.078	24 October 2010 to 6 March 2012
64,000	0.143	24 October 2010 to 6 March 2012
307,000		

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29. SHARE OPTION SCHEME (Continued)

2010 Number of options '000	Exercise price* HK\$ per share	Exercise period
50,500	0.038	14 August 2006 to 13 August 2011
4,000	0.116	14 May 2009 to 13 August 2011
4,000	0.116	14 November 2009 to 13 August 2011
9,500	0.160	7 July 2009 to 6 March 2012
190,500	0.160	11 August 2009 to 6 March 2012
258,500		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other changes in the Company's share capital.

The share options are vested at the date of grant. The fair value of the share options granted during the year was approximately HK\$2,880,000 (2010: nil) of which the Group recognised a share option expense of approximately HK\$2,880,000 (2010: nil) during the year.

The fair value of equity-settled share options granted during the year (2010: nil) was estimated as at the date of grant, using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2011
Weighted average share price	0.117
Dividend yield (%)	–
Expected volatility (%)	58–69
Historical volatility (%)	58–69
Risk-free interest rate (%)	0.2–0.3
Expected life of options (year)	0.7–0.9
Closing share price at grant date (HK\$)	0.078–0.143

The expected life of the options is based on management expectation and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 307,000,000 (2010: 258,500,000) share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 307,000,000 (2010: 258,500,000) additional ordinary shares in the Company and additional share capital of HK\$3,070,000 (2010: HK\$2,585,000) and share premium of approximately HK\$44,506,000 (2010: HK\$32,262,000) (before issue expenses).

After the year ended 31 December 2011, the Company's existing share option scheme expired on 6 March 2012. All the outstanding share option thereunder were lapsed because of the expiry of the option period. Accordingly, none of the outstanding share options as at 31 December 2011 is exercisable after the expiry.

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30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 38 of the consolidated financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium accounts of the subsidiaries acquired in prior years, over the nominal value of the Company's shares issued in exchange therefore.

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Equity component of convertible bonds HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2010	412,400	18,203	105,083	13,643	(126,944)	422,385
Change in equity for 2010: Total comprehensive loss for the year	–	–	–	–	(49,886)	(49,886)
Issue of new shares upon exercise of share options	1,288	–	–	(363)	–	925
Forfeiture of share options	–	–	–	(365)	365	–
Issue of new shares upon conversion of convertible bonds	49,880	–	(9,469)	–	–	40,411
At 31 December 2010 and 1 January 2011	463,568	18,203	95,614	12,915	(176,465)	413,835
Change in equity for 2011: Total comprehensive loss for the year	–	–	–	–	(40,147)	(40,147)
Equity-settled share option arrangements	–	–	–	2,880	–	2,880
Issue of new shares upon exercise of share options	2,391	–	–	(977)	–	1,414
Forfeiture of share options	–	–	–	(327)	327	–
Gain on extinguishment of convertible bonds	–	–	(28,487)	–	161,226	132,739
Issue of new shares upon conversion of convertible bonds	89,629	–	(15,395)	–	–	74,234
At 31 December 2011	555,588	18,203	51,732	14,491	(55,059)	584,955

Notes to the Financial Statements

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30. RESERVES (Continued)

(c) Nature and purpose of the reserves

(i) **Share premium**

Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

(ii) **Contributed surplus**

The Company's contributed surplus represents the excess of the fair value of the shares of a subsidiary acquired in prior years, over the nominal value of the Company's shares issued in exchange thereof.

(iii) **Equity component of convertible bonds**

The value of unexercised equity component of convertible notes issued by the Company recognized in accordance with the accounting policy adopted for convertible notes in note 3(m).

(iv) **Share option reserve**

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3(t)(ii) to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

(v) **Exchange fluctuation reserve**

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the overseas subsidiaries. The reserve is dealt with in accordance with the accounting policy set out in note 3(u).

(d) Distributability of reserves

At 31 December 2011 and 2010, the aggregate amount of reserves available for the distribution to owners of the Company calculated in accordance with the Companies Law of the Cayman Islands was approximately HK\$500,529,000 and HK\$287,103,000 respectively.

31. CONTINGENT LIABILITIES

In October 2011, PT. Merdeka Plantation Indonesia ("PTMPI"), a subsidiary of the Company, received a notice with regard to a legal case brought by a subcontractor, an independent third party. The plaintiff claims compensation for approximately Rp12.8 billion (equivalent to HK\$10.9 million) for early termination of an agreement. Based on legal advice, the directors believe that PTMPI has a strong legal position given the plaintiff's negligence in the performance of the contract and the chance that PTMPI will become liable for compensation is remote. Accordingly, no provision has been made in respect of this claim.

Save as disclosed above, the Company has no significant contingent liability as at 31 December 2011.

Notes to the Financial Statements

31 December 2011

32. OPERATING LEASE COMMITMENTS

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

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2011 HK\$'000	2010 HK\$'000
Within one year	1,263	–
In the second to fifth years, inclusive	484	–
	1,747	–

33. COMMITMENTS

In addition to operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the end of the reporting period:

	2011 HK\$'000	2010 HK\$'000
Authorised, but not contracted for plant and machinery	–	–
Contracted, but not provided for plant and machinery	–	22
	–	22

34. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transaction with a related party during the year:

	2011 HK\$'000	2010 HK\$'000
Acquisition of property, plant and equipment from a related company	264	–

The above transaction was determined by the Group and the related party with reference to the book value, market price and condition of the assets.

Notes to the Financial Statements

31 December 2011

34. RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of key management personnel of the Group

	2011 HK\$'000	2010 HK\$'000
Short term employee benefits	5,626	950
Post-employment benefits	24	5
Equity-settled share option expense	2,694	–
Total compensation paid to key management personnel	8,344	955

Further details of directors' emoluments are included in note 11 to the financial statements.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise convertible bonds, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

The main risks arising from the Group's financial instruments are foreign currency risk and liquidity risk. The Board reviews and agrees policies for managing this risk and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales, purchases or expenditure by operating units in currencies other than the units' functional currencies. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the HK dollar ("HK\$") and Rupiahs ("Rp"), with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in loss before tax and accumulated loss HK\$'000
2011		
If HK\$ weakens against Rp	10	538
If HK\$ strengthens against Rp	(10)	(538)
2010		
If HK\$ weakens against Rp	10	1,019
If HK\$ strengthens against Rp	(10)	(1,019)

Notes to the Financial Statements

31 December 2011

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of convertible bonds. In addition, banking facilities have been put in place for contingency purposes.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

2011

	Within one year or on demand HK\$'000	Group More than 1 year but less than 5 years HK\$'000	Total HK\$'000
Other payables	482	–	482
Convertible bonds	–	404,880	404,880
	482	404,880	405,362

2010

	Group Within one year or on demand HK\$'000
Other payables	1,469
Convertible bonds	504,880
	506,349

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

2011

	Within one year or on demand HK\$'000	Company More than 1 year but less than 5 years HK\$'000	Total HK\$'000
Due to subsidiaries	28,609	–	28,609
Convertible bonds	–	404,880	404,880
	28,609	404,880	433,489

Notes to the Financial Statements

31 December 2011

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

2010

	Company Within one year or on demand HK\$'000
Due to subsidiaries	37,610
Convertible bonds	504,880
	542,490

Interest rate risk

The Company has no significant interest-bearing assets except for cash and cash equivalents.

Management will continue to review the market trend, as well as its business operation needs and its financial position in order to identify the most effective tools for the Group's interest rate risk management.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has monitored the exposures on an ongoing basis.

The Group has concentration of credit risk by customers as for 100% (2010: nil) of trade receivables were due from the Group's largest customer as at 31 December 2011.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any other guarantees which would expose the Group to the credit risk. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21 and 22.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objective policies or processes for managing capital during the year ended 31 December 2011 and 2010.

Notes to the Financial Statements

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35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is total borrowings divided by total capital plus total borrowings. The Group's total borrowings represent convertible bonds. The Group's capital represents the equity attributable to equity holders of the parent.

	Group	
	2011 HK\$'000	2010 HK\$'000
Convertible bonds	304,111	485,652
Total borrowings	304,111	485,652
Total capital	580,594	426,000
Total capital and borrowings	884,705	911,652
Gearing ratio	34.4%	53.3%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

36. EVENTS AFTER THE REPORTING PERIOD

On 6 March 2012, the Company's existing share option scheme expired. All the outstanding share options thereunder were lapsed because of the expiry of the option period.

On 22 March 2012, the Company established the nomination committee to comply with the latest amended GEM Listing Rules.

Notes to the Financial Statements

31 December 2011

37. ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets ¹ Disclosures – Offsetting Financial Assets and Financial Liabilities ² Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³ Financial Instruments ³
HKFRS 9	Consolidated Financial Statements ²
HKFRS 10	Joint Arrangements ²
HKFRS 11	Disclosure of Interests in Other Entities ²
HKFRS 12	Fair Value Measurement ²
HKFRS 13	Presentation of Items of Other Comprehensive Income ⁵
Amendments to HKAS 1	Deferred Tax – Recovery of Underlying Assets ⁴
Amendments to HKAS 12	Employee Benefits ²
HKAS 19 (as revised in 2011)	Separate Financial Statements ²
HKAS 27 (as revised in 2011)	Investments in Associates and Joint Ventures ²
HKAS 28 (as revised in 2011)	Offsetting Financial Assets and Financial Liabilities ⁶
Amendments to HKAS 32	Stripping Costs in the Production Phase of a Surface Mine
HK (IFRIC) – Int 20	

¹ Effective for annual periods beginning on or after 1 July 2011.

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

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 January 2012.

⁵ Effective for annual periods beginning on or after 1 July 2012.

⁶ Effective for annual periods beginning on or after 1 January 2014.

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs upon initial application. So far the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

38. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 22 March 2012.

Summary of Financial Information

A summary of the results and of the assets, liabilities and Non-controlling interests of the Group for the last five financial years/period, as extracted from the published audited financial statements, is set out below:

RESULTS

	Year ended 31 March 2008 HK\$'000	Year ended 31 March 2009 HK\$'000	Period from 1 April 2009 to 31 December 2009 HK\$'000	Year ended 31 December 2010 HK\$'000	Year ended 31 December 2011 HK\$'000
Revenue	41,214	22,672	6,970	6,715	8,891
LOSS BEFORE TAX	(9,377)	(47,403)	(58,622)	(67,454)	(69,526)
Income tax	–	–	–	–	–
LOSS FOR THE YEAR/PERIOD	(9,377)	(47,403)	(58,622)	(67,454)	(69,526)
Attributable to:					
Owners of the Company	(9,103)	(47,322)	(57,436)	(64,294)	(67,157)
Non-controlling interests	(274)	(81)	(1,186)	(3,160)	(2,369)
	(9,377)	(47,403)	(58,622)	(67,454)	(69,526)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 March 2008 HK\$'000	As at 31 March 2009 HK\$'000	As at 31 December 2009 HK\$'000	As at 31 December 2010 HK\$'000	As at 31 December 2011 HK\$'000
TOTAL ASSETS	67,591	1,007,319	990,670	951,791	921,601
TOTAL LIABILITIES	(9,752)	(531,364)	(505,432)	(488,050)	(305,635)
	57,839	475,955	485,238	463,741	615,966
EQUITY:					
Equity attributable to owners of the Company	57,843	433,868	444,337	426,000	580,594
Non-controlling interests	(4)	42,087	40,901	37,741	35,372
	57,839	475,955	485,238	463,741	615,966

Glossary of Terms

GENERAL TERMS

AGM	Annual general meeting
Audit Committee	The audit committee of the Company
Board	The board of Directors
CCT Telecom	CCT Telecom Holdings Limited, a company listed on the Main Board of the Stock Exchange and a substantial shareholder of the Company
CEO	The chief executive officer of the Company
Chairman	The chairman of the Company
Code	The Code on Corporate Governance Practices under the GEM Listing Rules
Company	Merdeka Resources Holdings Limited
Director(s)	The director(s) of the Company
GEM	The Growth Enterprise Market of the Stock Exchange
GEM Listing Rules	The Rules Governing the Listing of Securities on the GEM
Group	The Company and its subsidiaries
HK or Hong Kong	The Hong Kong Special Administrative Region of PRC
HK\$	Hong Kong dollar(s), the lawful currency of Hong Kong
INED(s)	Independent non-executive director(s)
Manistar	Manistar Enterprises Limited, a substantial shareholder of the Company and a wholly-owned subsidiary of CCT Telecom
MCL	Merdeka Commodities Limited, a substantial shareholder of the Company
MCL Convertible Bonds	The convertible bonds issued by the Company to MCL on 12 August 2008 as part of consideration to acquire the forestry business. The convertible bonds, originally due on 12 August 2011 and extended to 12 August 2014, are interest-free and convertible into the Shares at the initial conversion price of HK\$0.1 per Share (subject to adjustment according to the terms of the convertible bonds)
MTG	Merdeka Timber Group Ltd., a principal subsidiary of the Company
MTG Group	MTG and its subsidiaries
N/A	Not applicable
PRC	The People's Republic of China
Remuneration Committee	The remuneration committee of the Company

Glossary of Terms

RMB	Renminbi, the lawful currency of PRC
Rp	Rupiah, the lawful currency of Indonesia
SFO	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	The ordinary share(s) of HK\$0.01 each in the share capital of the Company
Shareholder(s)	Holder(s) of the Share(s)
Share Option Scheme	A share option scheme adopted by the Company on 20 February 2002 and became effective on 7 March 2002
Stock Exchange	The Stock Exchange of Hong Kong Limited
US	The United States of America
USD	United States dollar(s), the lawful currency of US
%	Per cent.

FINANCIAL TERMS

Current Ratio	Current assets divided by current liabilities
Gearing Ratio	Total borrowings (representing bank & other borrowings, convertible notes and finance lease payable) divided by total capital employed (i.e. total Shareholders' fund plus total borrowings)
Loss Per Share	Loss attributable to the Shareholders divided by weighted average number of Shares in issue during the period/year

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